Legitimacy in Institutional Theory
Three Essays on Social Judgments in a Globalized World

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The Faculty of Economics, Business Administration and Information Technology of the University of Zurich hereby authorizes the printing of this Doctoral Thesis, without thereby giving any opinion on the views contained therein.

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1 Introduction

1.1 Overview

In this dissertation I apply an institutional theory perspective to examine legitimacy and processes of legitimation in the context of transnational governance. Legitimacy can be defined inclusively as a "generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995: 574). This definition is based on the degree to which a particular legitimacy subject, such as an organization or organizational practice, gains collective approval that is created subjectively in processes of social construction; in that sense, legitimacy is understood as a "social judgment" (Bitektine, 2011). In the context of organizations, legitimacy plays a pivotal role. More precisely, legitimacy is essential to their survival, considering that a lack of legitimacy may lead important constituents and resource holders to withhold material and/or ideational support (Aldrich & Fiol, 1994). In a similar vein, institutional theorists regard the quest for legitimacy as the driving force that motivates organizations to adopt formal policies (Meyer & Rowan, 1977). From the above, it is evident that examining the antecedents, processes, and consequences of legitimacy is pivotal to understanding thoroughly what determines organizational growth and endurance. For that reason, legitimacy occupies a prominent position in institutional thought (Deephouse & Suchman, 2008).

So far, legitimacy has been addressed predominantly as a phenomenon on the collective level. As a result, few scholars have explored the "microfoundation" of legitimacy, that is, the mental, behavioral, and discursive processes underlying the construction of legitimacy at the level of the individual. Arguably, at the collective level, legitimacy depends, at least partly, on the consolidation of individual judgments and on the behavioral and discursive reactions that follow from these judgments (Bitektine, 2011; Johnson, Dowd, & Ridgeway, 2006). Thus, examining the mental antecedents of legitimacy assessments may help elucidate the discursive and behavioural reactions towards a legitimacy subject and the resultant social interactions that ultimately constitute legitimacy as a collective-level phenomenon (Tost, 2011), a point that is stressed in the third essay comprised in this

dissertation. On the other hand, as shown in the second essay, discursive interaction affects mental processes, which in turn leads to changes in behavioral dispositions.

Notwithstanding its significance, the study of legitimacy and legitimation on the micro-level has been so far largely overlooked in institutional theory (Powell & Colyvas, 2008). In the present dissertation I seek to advance research on legitimacy on the micro-level by assessing legitimacy and legitimation in the context of *transnational governance schemes*. Transnational governance schemes ("TGSs" hereafter) refer to organizational collectives of public and/or private member organizations that jointly regulate global public policy issues, such as the prevention of human rights violations and the protection of ecosystems. Transnational governance schemes warrant intense conceptual and empirical attention in organization studies for at least two reasons (Djelic & Quack, 2008; Scherer & Palazzo, 2011; Scott, 2008; Walsh, Meyer, & Schoonhoven, 2006). First, transnational governance is a widespread phenomenon: Vogel (2008) has counted over 300 business-dominated TGSs that regulate major global economic sectors, in addition to a (so far indeterminate) plethora of hybrid schemes involving other private and/or public organizations (Pattberg, 2005; Waddock, 2008). As these global collectives are constituted in their turn by an increasing number of private and public organizations, they effectively multiply both the regulatory and normative impact of transnational governance (Quack, 2010). Second, TGSs help establish good policy-making and management practice in weakly regulated or unregulated issue areas (Djelic & Sahlin-Andersson, 2006; Scherer, Palazzo, & Baumann, 2006) and thus contribute to institution-building at the global level (Maguire & Hardy, 2006).

Transnational governance schemes face legitimacy problems because, in contrast to intergovernmental or supranational bodies (which are legitimized indirectly through the delegated authority of elected governments), they largely lack democratic endorsement and control and are therefore contested on normative grounds (Quack, 2010; Scherer & Palazzo, 2007, 2011; Steffek, 2003). Importantly, civil society actors accuse TGSs and business firms that participate in such schemes of not monitoring effectively the implementation of adopted policies in organizational processes and strategies (Behnam & MacLean, 2011; den Hond & de Bakker, 2007).

Like other types of novel and unfamiliar forms of organizing, such as ventures (Aldrich & Ruef, 2006; Zimmerman & Zeitz, 2002) or "hybrid" organizations, i.e. organizations that mix elements of different sectors (Battilana & Dorado, 2010) TGSs as a whole, as well as their organizational structures, procedures, and outcomes, are scrutinized

critically. Because TGSs are novel organizational forms, their structure and function are not as intelligible to observers as those of already legitimate organizations or organizational forms (Aldrich & Fiol, 1994; Henisz & Zelner, 2005). This problem is particularly pronounced in the case of transnational governance because in the global sphere expectations are fragmented and often antagonistic. In other words, legitimacy-ascribing constituencies are heterogeneous and their legitimacy beliefs lack coherence and stability (Kostova, Roth, & Dacin, 2008; Scherer & Palazzo, 2011). Beholders struggle to make sense of transnational issues and disagree on how to justify transnational governance normatively. As a result, TGSs cannot rely on isomorphic adaption (i.e., mimicking the behavior of other TGSs), but must resort to other ways of gaining legitimacy (Scherer & Palazzo, 2011).

In this dissertation I theorize a number of avenues to legitimation in the context of transnational governance. The overarching research question spanning the three dissertation essays is how TGSs establish and maintain legitimacy in the eyes of individual beholders. The answer to which I came, and which I discuss at length further down, is that, in order to create and secure legitimacy, TGSs must (1) take advantage of the principle of analogy and ideational affinity with already legitimate entities and thus promote a "spillover" of legitimacy and (2) engage in dialogue with important beholders; in particular, the members of civil society at large. In the remainder of this introductory chapter I summarize each of the three essays, delineate the major contributions of the dissertation as a whole, and specify avenues for future research.

1.2 Summary of Three Essays

In the first essay, which is single-authored, I review the methodological approaches that scholars have commonly used to study legitimacy in studies published in top-tier journals in organization studies over the last 30 years. On the basis of this review, I identify a discrepancy in extant research on legitimacy between the *construct* of legitimacy as a subjectively bestowed judgment that emerges in processes of social interaction, and the *methods* applied to assess that construct. This gap between ontology and methodology is reflected in the fact that most institutional theory studies draw on textual data derived from interview transcripts, media coverage, and other documents. The emphasis on textual data and text analysis comes at the expense of alternative approaches to studying legitimacy, namely research methods that acknowledge the ideational and socio-cognitive factors and relationships underlying the formation of legitimacy. To test and develop a theory on how

beholders subjectively bestow legitimacy, I suggest that researchers should triangulate extant approaches to textual analysis with a set of experimental methods that hold great potential to contribute to a better understanding of legitimacy and legitimacy processes.

In the first essay, I add to the extant literature by reviewing the theoretical and methodological agendas that dominate research on the subject of legitimacy in the context of organizations. Furthermore, I propose that experiments could diversify the methodological toolkit available to institutional theorists, and raise attention to the cross-influences between theory and methodology in institutional analysis. Although the first essay does not directly assess legitimacy in transnational governance, it prepares the ground for the second and third essays through the argument that legitimacy research should focus more on the micro-level, which the other two essays are concerned with.

The second essay, co-authored with Dennis Schoeneborn and Christopher Wickert, examines empirically the processes of legitimation and institutionalization in the case of the Equator Principles, a TGS that is principle-based, as the name implies, and concerned with international project finance. The Equator Principles promote corporate responsibility by requiring participating financial institutions to base their project investments on social and environmental criteria. The rapid growth of this TGS in the past few years is reflected in the increase and diversification of its membership base. Nevertheless, it is frequently criticized by civil society actors, who argue that the Equator Principles' formal prescriptions are often not effectively implemented by member organizations on the project site. Linking the case of the Equator Principles to the literature on standards (Brunsson & Jacobsson, 2000), my co-authors and I develop a narrative approach in order to examine the discursive-ideational development of the Equator Principles, i.e. the shifts in language and meaning that took place as the standard proliferated. More specifically, we demonstrate that a narrative that has been "authored" by banks and is intended to establish the Equator Principles' cognitive and pragmatic legitimacy ("success narrative") is confronted by a narrative "authored" by the civil society, which challenges the Equator Principles on grounds of moral legitimacy ("failure narrative"). Over time, both narratives coalesce into a third narrative ("commitment narrative"). This narrative is told by banks and seeks to establish legitimacy by promising to realize the TGS's formal prescriptions. Crucially, by committing themselves publicly to intensify their efforts to implement the TGS's prescriptions, banks become "rhetorically entrapped" and talk themselves into a novel reality of doing project finance. Overall, the second essay contributes to institutional theory by providing evidence that decoupling—the

misalignment of formal structure and activities—is not always a suitable long-term solution for dealing with institutional contradictions and securing legitimacy (Meyer & Rowan, 1977). In fact, in a situation of societal evaluation, organizational actors need to engage discursively with their environments in order to establish legitimacy. Furthermore, the narrative perspective developed in that essay complements works that focus either on the spatial-temporal proliferation of standards ("standardization-as-diffusion") or the implementation of material practices ("standardization-as-entrenchment") and offers insights into how civil society actors succeed in influencing sense-making activities in business firms (Basu & Palazzo, 2008).

The third essay, co-authored with Andreas Georg Scherer, analyzes conceptually the heuristic bestowal of cognitive legitimacy, which is understood as the intuitive assessment of the comprehensibility and taken-for-grantedness of an organization. Because the existing categorical structures for TGSs are still not sufficiently developed, we posit that, in contrast to what institutional theory argues, individual beholders cannot assign legitimacy by classifying organizations into a pre-existing category (Bitektine, 2011). Moreover, we develop an alternative account of cognitive legitimacy and propose that beholders confer legitimacy heuristically by drawing on the observable associations between an unknown TGS and its more familiar organizational members. As we argue, beholders do not process these associations cognitively but draw on their affective response towards TGS members to reach a judgment about the overarching TGS. We explain that this substitution spans different levels of analysis and produces a "vertical" legitimacy spillover (Kostova & Zaheer, 1999); that is, a transfer of legitimacy from the TGS member to the TGS as a whole that does not reduce the legitimacy of the former. The broader implication and major contribution of the third essay is that researchers need to go beyond extant accounts of cognitive legitimacy and consider the affective and heuristic factors that determine processes of legitimation and categorization.[1]

1.3 Areas of Synergy and Contributions

The three essays that constitute this dissertation shed light on the dynamics of legitimacy in transnational governance and highlight important areas of synergy in the relevant research. As a whole, the dissertation makes important contributions to the literature on this topic. More

[1] Please note that at the time of submission of my dissertation the third essay has been under review at a scientific journal. The journal required withholding the essay from publication in its current form as part of my cumulative dissertation. This embargo holds for a full year after submitting the dissertation to the library of the University of Zurich. The third essay will be accessible to the public in January 2014.

specifically, first, all three essays expand past research on the *microfoundation of legitimacy*. The first essay elucidates how theoretical and methodological choices interact and promotes an experimental research program to advance the micro-theoretical agenda in research on legitimacy, preparing the ground for the second and third essay. Analyzing the ideational evolution of the Equator Principles, the second essay reveals that corporate responsibility can be induced through the interaction of banks with "significant others," i.e. members of civil society at large (Berger & Luckmann, 1967). While the second essay focuses on the discursive-behavioral dimension of legitimacy, the third essay examines the mental processes that influence the bestowal of cognitive legitimacy. This essay draws attention to an assumption in institutional theory that has so far not been questioned; namely, that an organization only acquires cognitive legitimacy when individual beholders can assign it to a familiar category. All three essays address one of the basic tenets of institutional theory, namely that legitimacy "resides in the eye of the beholder" (Ashforth & Gibbs, 1990: 177). The acknowledgement that collective-level legitimacy is dependent on the mental, behavioral, and discursive processes through which legitimacy judgments are formed on the individual level has important conceptual and methodological implications, such as the need to theorize further and test empirically the heuristic bestowal of legitimacy and the role of social interaction and deliberation in legitimation processes (see the section "Future Research" further down).

Second, from a phenomenological point of view, the second and third essay examines the *emergence and consolidation of transnational governance* and assesses the role legitimacy plays in these processes. Notwithstanding the increasing pervasiveness and relevance of transnational organizations (Djelic & Quack, 2008; Greenwood & Miller, 2010; Scott, 2008; Walsh et al., 2006), past research has been rarely concerned with the boundary conditions underlying the process of bestowing legitimacy, and its role as a formative factor in the institutionalization of transnational governance (Quack, 2010), while extant approaches in institutional theory cannot account sufficiently for the dynamics observed on the global level. By identifying multi-level interdependence in transnational organizations as a prominent example of legitimacy spillovers, the third essay substantiates arguments that TGSs need to associate with other, already fully legitimate entities (Etzion & Ferraro, 2010). Extending the focus of the third essay, the second essay theorizes that legitimacy is not solely the outcome of mental processes but also emerges in processes of discursive contestation (Scherer & Palazzo, 2007). Overall, the dissertation contributes to a growing body of research that

examines the rise of a novel form of organizing beyond traditional forms of governance (Djelic & Quack, 2008; Scherer & Palazzo, 2011).

Third, the first two essays advocate *methodological diversification and innovation* in the field of research on legitimacy. More specifically, the first essay argues that experiments are a necessary extension of the methodological toolkit of institutional researchers. Experiments are particularly useful for testing and validating key constructs and relationships in research on legitimacy (Bitektine & Haack, 2012). With regard to methodological innovation, the second essay combines content analysis and correspondence analysis, following the approach of Meyer and Hoellerer in a recent study (2010), which allowed them to examine the discourse on shareholder value in Austria. Importantly, our decision to include a categorical time variable in the correspondence analysis enabled us to track ideational dynamics and shifts in meaning over time. Overall, both experiments and correspondence analysis add significantly to the set of methods available to institutional theorists and may be fruitfully applied to other areas in institutional theory.

1.4 Future Research

There are several conceptual and empirical research avenues that seem worth pursuing in future research. I will elaborate on various research opportunities in each essay; here, I narrow my suggestions to (1) how the concept of legitimacy spillovers can be extended, (2) experiments that assess legitimacy processes, and (3) computer-based modeling as an approach that is suitable for the theoretical exploration of entrapment and coupling processes.

First, building upon the third essay, future conceptual research could shift its focus from studying legitimacy as a property of *individual subjects* to legitimacy as a property of *relationships between subjects*. Scholars need to articulate more efficiently the fact that TGSs face the consequences of a "legitimacy commons," a concept that alludes to the "tragedy of the commons," which frequently refers to natural resources such as fisheries (Hardin, 1968). As in the case of natural resources, the "legitimacy commons" in transnational governance implies that social approval for an overarching entity can be dissipated and ultimately destroyed by the inconsiderate behavior of its subunits (Barnett, 2006; for a similar argument on the "reputation commons" see King, Lenox, & Barnett, 2002). The fact that legitimacy resembles an intangible, collectively owned, and non-rival resource that can be impaired by association implies that TGSs have an interest in "privatizing" the legitimacy commons by actively disassociating themselves from discredited participants in a manner that allows

individuals to form “accurate” judgments. Of course, the issue of the legitimacy commons is not only relevant to the growth and survival of TGSs but also affects all forms of organizational interdependence. Furthermore, although the third essay emphasizes bottom-up legitimacy transfers, from the constituents of a TGS to the overarching TGS, this is not to say that vertical spillovers cannot follow a top-down direction; for instance, when private business firms receive public recognition for their association with a specific TGS. In view of that, future research should study other types of legitimacy relations—examine, for instance, whether the legitimacy of private business firms is affected by the legitimacy of a TGS and if so, whether the effects and the mechanisms involved are comparable to those in the case of bottom-up relations. Finally, an important implication of the spillover phenomenon is that it can be used strategically. For instance, organizations could devise measures and policies that foster positive legitimacy spillovers or shield from negative spillovers. Overall, legitimacy connections across different levels of analysis can be viewed not so much as an emergent property of social reality but more as an important asset that can be employed in the creation, maintenance, or destruction of the legitimacy of emergent entities. Although previous research has not examined this aspect systematically, it seems plausible that actors purposefully take advantage both of the consequences of relations that are beneficial and those that are detrimental to specific legitimacy subjects. The strategic maneuvering of legitimacy spillovers in transnational governance or in other subject areas seems an especially interesting topic for future investigation.

Second, the experimental research program advanced in the first dissertation paper could help researchers integrate psychological and social-constructionist viewpoints on legitimacy within an ideational paradigm (Bitektine & Haack, 2012). Arguably, experiments can be seen as a critical step in that they offer scholars the opportunity to build upon and extend conceptual insights from previous research on legitimacy and legitimation (Bitektine, 2011; Suchman, 1995; Tost, 2011). In the future, carefully designed experiments could validate the basic mechanisms of legitimation, exploring for instance, and the scope conditions under which legitimacy is heuristically bestowed. At the same time, when applying experimental or quasi-experimental research designs, scholars need to consider the shift from a monological to a dialogical conception of legitimacy and legitimation. As shown in the second essay, the companies participating in the Equator Principles had to engage in active discourse with their social environments in order to gain legitimacy in the eyes of critical beholders. In order to tackle the dialogical nature of legitimacy more efficiently, scholars

could apply, modify, and extend the "Deliberative Polling" research design in political science (Fishkin & Luskin, 2005). In deliberative studies, a diverse sample of citizens discusses a counterfactual issue that affects—for better or for worse—the legitimacy and desirability of a specific policy option. Participants receive carefully framed background information on the topic, and observations of the deliberation are complemented with observations of the participants' pre- and post-deliberation attitudes, which are used as proxies for legitimacy beliefs. The deliberative polling design could be readily transferred to organizational settings. Both the realism of actual deliberation on real-world issues and the external validity provided by surveys would help cross-validate findings gained in experiments.

Finally, an important topic for future research is the development of research approaches suitable for identifying the material and ideational boundary conditions for moral entrapment and ensuing coupling processes, which is discussed in the second essay. *Agent-based modeling*, i.e., the computer-based simulation of "the behaviors of adaptive actors who make up a social system and who influence one another through their interactions" (Harrison, Lin, Carroll, & Carley, 2007: 1237), is likely to prove particularly suitable for the analysis of entrapment and coupling processes for two reasons: first, uncovering the true degree of entrenchment requires longitudinal, in-depth investigations into the quality of practice implementation. Clearly, this is hard to achieve, given the time and budget constraints in social science research. What's more, organizations tend to be unwilling or unable to disclose information about internal activities, particularly when this relates to the sensitive issue of corporate responsibility. Second, although there is a small but growing body of research on decoupling, loose coupling, and re-coupling (Hallett, 2010), the existing literature has not produced a dynamic concept of the coupling processes in organizations. Agent-based modeling, in conjunction with in-depth qualitative studies on individual micro-mechanisms, would address both problems. Given that simulation models create their own "virtual" data, problems of secrecy and distrust do not arise. At the same time, simulations can handle the various social interactions that are neglected in extant institutional theories.

In sum, future research on the microfoundation of legitimacy and on the adoption of relevant practices should take advantage of more controlled research designs, such as experiments and computer-based simulations.

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2 Article 1: Beyond Text Analysis: The Unmet Promise of Experiments in Legitimacy Research

Abstract

The purpose of this article is threefold. First, in an endeavor to examine how legitimacy has been methodologically deployed in institutional theory, I systematically survey studies on legitimacy that have been published in the premier management and organization studies journals over the last 30 years. This review detects an overreliance on textual data and text analysis at the expense of alternative approaches, namely assessments of legitimacy as a perceptual component of social judgments. Second, this synthesis serves as a point of departure for exploring the opportunity of employing experiments in research on legitimacy. More specifically, I delineate a set of experimental methods that have significant potential as means of examining how legitimacy is subjectively bestowed. Third, by using research on legitimacy as a case in point, I seek to demonstrate that in institutional theory theoretical and methodological choices are inherently intertwined.

Keywords

Experiment, institutional theory, legitimacy, methodology

2.1 Introduction

The study of legitimacy, defined as a "generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995: 574), has been central to institutional theory (Deephouse & Suchman, 2008). From the perspective of organization theory, "legitimation," that is, the acquisition of legitimacy, is crucial for organizations, as it is through legitimacy that they acquire ideational and material support, such as access to financial and human resources. Moreover, legitimacy increases their prominence and influence, which are fundamental to their growth and survival (Aldrich & Fiol, 1994). Notwithstanding the significance of legitimacy in the evolution of organizations, several scholars have raised concerns over the empirical utility of the construct. For example, Terreberry (1968) acknowledged the popularity of the sociological concept of legitimacy, but at the same time noted its pronounced resistance to empirical specification. Four decades later, scholars continue to assert that legitimacy is difficult to measure (Tornikoski & Newbert, 2007); also, there is little agreement on how legitimacy is measured (Foremen & Whetten, 2002). Deephouse and Suchman observe that much of the scholarship on legitimacy is "highly theoretical, invoking legitimacy as an explanatory concept rather than examining it as an empirical attribute" (Deephouse & Suchman, 2008: 49).

Considering the important role of legitimacy in institutional theory, it is puzzling that there are very few studies on the research approaches that are commonly employed to investigate legitimacy. Although David and Bitektine (2009) review methodological and theoretical developments in institutional theory, and Suddaby and Greenwood (2009) discuss methodological issues in research on institutional change, to date there is no thorough appraisal of the methods applied in research on legitimacy. To close this gap, this article provides a comprehensive review of the range of methodological approaches identified in the extant literature, with reference to the following three research questions: (1) Which research methods have been used to assess legitimacy in institutional thought? (2) Which research methods have the potential to validate and further develop the construct of legitimacy? (3) What can be learned from the way in which methods and theoretical agendas have evolved in the area of legitimacy research?

In order to address these questions, I carried out a survey of the empirical research on legitimacy that has been published in leading outlets of organization theory over the last 30 years. The literature review I performed reveals several findings:

(1) Extant empirical work on legitimacy is characterized by ambiguity and disagreement on the nature of the legitimacy construct. Moreover, it does not identify clear boundaries to related concepts, such as reputation and image.
(2) Legitimacy is rarely addressed as a dependent variable in empirical studies but frequently used as an independent variable to explain a wide range of empirical phenomena.
(3) There is no study that directly examines the intra-individual and ideational antecedents of legitimacy judgments (Tost, 2011).
(4) Analyses rely mostly on secondary data; above all, documents and media accounts.
(5) The assessment of legitimacy is dominated by text-based measures.

This review will serve as a starting point for discussing the methodological and theoretical implications of the paper's findings for future research on legitimacy. More specifically, whereas Suddaby and Greenwood (2005) welcome the fact that "the organizational world is becoming increasingly text-laden" (Suddaby & Greenwood, 2005: 61) and discern manifold opportunities offered by variants of text analysis, I argue that an overreliance on textual data and text analysis has prevented organizational scholars from conceptualizing legitimacy as an inherently contingent and socially constructed phenomenon. In other words, on its own, text analysis is inadequate for developing a richer micro-level theory of the inter-subjective and perceptual processes and mechanisms that underlie legitimacy and institutional change (Bitektine, 2011; Tost, 2011). As a consequence, extant legitimacy research is characterized by a mismatch between theoretical claims (legitimacy as a "generalized perception") and the methodologies currently used to test these claims; that is to say, the methodological tools that apply proxies for legitimacy are too distant from the meaning systems and ideational aspects of institutions (Suddaby, 2010a).

Considering the problems associated with this bias towards text analysis in extant legitimacy research, I suggest as a remedy that scholars should employ experimental designs more frequently. Here, "experiment" is understood as a controlled research procedure that tests "whether one thing really causes another" (Aronson, Ellsworth, Carlsmith, & Gonzales,

1990: 9). Given that experiments are a powerful means of testing for causal inference, they offer institutional analysts the opportunity to explore certain under-theorized accounts of the subjective construction of legitimacy, as well as some unresolved puzzles in that area. Relevant topics concern, for instance, the heuristic foundation of legitimacy judgments (Haack & Scherer, 2012), the mutual constitution of legitimacy on the individual level and on the collective level (Johnson, Dowd, & Ridgeway, 2006), the role of audience heterogeneity in legitimacy judgments (Lamin & Zaheer, 2012), or the question of whether legitimacy can be represented by a binary construct, which implies that a specific legitimacy subject can be either legitimate or illegitimate, or is better captured by a metric construct, which implies that a subject's legitimacy or illegitimacy varies gradationally (Deephouse & Suchman, 2008).

This paper highlights the strengths of a diverse set of experimental designs that can be fruitfully applied in the empirical analysis of legitimacy. Furthermore, it explains that the nature and purpose of experiments is often misunderstood: the problems of artificial lab settings and student samples are exaggerated (Highhouse, 2009) and can be easily alleviated by the use of survey experiments (Gaines, Kuklinski, & Quirk, 2007) and controlled group designs (Fishkin & Luskin, 2005). In addition, it suggests that recent technological innovations in brain imaging can enrich the experimental examination of legitimacy in institutional theory, in particular in relation to the emotional (as opposed to purely cognitive) antecedents of legitimacy judgments.

The present research contributes to the extant literature on legitimacy in institutional theory in several ways. First, it offers a review of the methods used in legitimacy research—an aspect that, so far, has not received sufficient attention in the literature on institutional theory. Second, it puts forward experimental triangulation as a promising means of complementing and diversifying the existing methodological toolkit of institutional analysts. Third, the case of research on legitimacy exemplifies that theoretical and methodological choices co-evolve and are inherently intertwined; theory cannot progress in the absence of adequate methods for testing and validating its core concepts. Conversely, methodology cannot advance in the absence of soundly developed theory; in other words, it is hampered by weakly defined concepts and an inadequate understanding of the relationships among different concepts (Aguinis, Pierce, Bosco, & Muslin, 2009; van Maanen, Sørensen, & Mitchell, 2007). Overall, the goal of this article is to facilitate a conversation on the role of experiments in the development of the legitimacy construct and of institutional theory more generally, and to encourage scholars to utilize mixed-method designs, which allow the

triangulation of results obtained through "conventional" methods with the experimental exploration of the causal mechanisms underlying institutional outcomes.

2.2 Sample and Procedure

Following other institutional scholars who have conducted similar studies (Battilana, Leca, & Boxenbaum, 2009; David & Bitektine, 2009), I systematically reviewed the available research on legitimacy in institutional theory that has been published in the leading journals in the field of management and organization studies, especially those that have an empirical orientation. This selection includes the four premier American journals in the field of organization studies: *Academy of Management Journal* (AMJ), *Administrative Science Quarterly* (ASQ), *Organization Science* (OrgSci), and *Strategic Management Journal* (SMJ). Recognizing that institutional theory has much currency amongst scholars outside North America, and amongst researchers who do not publish in such outlets, I also included two leading European journals: *Journal of Management Studies* (JMS) and *Organization Studies* (OS). All six journals enjoy a high reputation in academia, are highly selective in the material they publish, and have high impact-factor rankings in the Social Science Citation Index. In light of that, I reasoned that relevant articles that have appeared in this set of journals provide a representative distillate of the major themes in the field of legitimacy research in institutional theory. Furthermore, because David and Bitektine (2009) rely on a similar sample of publications in their own review of theoretical and methodological trends in organizational institutionalism, my selection of journals permits comparative analyses of the two sets of findings.

I conducted the search of relevant articles in the six journals in March 2010 using library databases available at the University of Zurich, Switzerland. The selection of articles followed a two-step procedure. First, I ran a search for the keywords "legitim*" in the title or abstract and "institut*" in the full text, in order to identify articles that discuss legitimacy from an institutional perspective. I decided to limit the timeframe to articles that were published in the period 1977–2009, given that modern organizational institutionalism is considered to have been founded by two seminal works; namely the study by Zucker and the study by Meyer and Rowan, both of which appeared in 1977 (Greenwood, Oliver, Sahlin, & Suddaby, 2008). This search retrieved a total of 178 articles from all six journals. In the second step, I had a closer look at these articles, as it was apparent that not all papers were firmly grounded in institutional theory and that some articles seemed altogether irrelevant for other reasons. I thoroughly read all articles and selected for further analysis only those studies

that (1) conceptualized legitimacy or illegitimacy as a central variable (i.e., as a dependent, independent, moderator, or mediator variable) or were predominantly concerned with the process of legitimation or delegitimation, (2) were rooted fully or to a significant degree in neo-institutional theory, (3) were clearly based on empirical data. Articles that did not meet all three criteria were excluded from the sample. In total, 62 articles met the inclusion criteria and were subjected to further analysis. It should be noted that this search method did not capture all relevant publications. For instance, studies that discuss institutionalization in their abstract but only cover legitimacy in the subsequent text—such as Hoffman's study (1999) on the evolution of corporate environmentalism in the United States—have not been included in the second analysis. Nevertheless, the final sample of 62 articles is sufficient for the scope of this paper. A list of the selected articles can be found in Appendix A.

After determining the final sample, I reviewed the articles based on various categories. These categories, discussed at length further below, were deductively derived from the literature and reflected particular properties of each article, such as research approach (variance vs. process), data source (primary vs. secondary), technique of data analysis (quantitative vs. qualitative), level of analysis (macro, meso, micro), and operationalization—if any—of legitimacy (text-based, indirect, direct). In the course of the analysis, I inductively refined the specifications of those categories on the basis of insights I gained from the ongoing analysis of the respective articles. For instance, I divided the sub-category "text-based operationalization of legitimacy" into three specifications covering "text-based interpretive," "text-based implicit," and "text-based explicit" operationalization.

Next, I completed a data matrix containing comprehensive information for each category (displayed in the columns) and article (displayed in the rows). I then devised a more parsimonious binary matrix, indicating whether a particular article matched a category specification. I aggregated results for five-year periods, starting with the period 1980–1984 (there was no relevant article prior to 1983). The results of this quantification process are shown in Table 1.

Although my primary interest in this paper is oriented towards empirical research, the selection of journals includes the leading publication outlet with a theoretical focus in organization studies, the *Academy of Management Review* (AMR). To search AMR, I used the keywords as in the search I ran for the journals that have an empirical orientation. Applying the same two-step qualification procedure to assess the relevance of the retrieved works, I identified 13 articles suitable for further analysis (see Appendix B). These papers,

along with certain book chapters pertinent to the search (e.g., Deephouse & Suchman, 2008) provided important background knowledge for my assessment of the articles that have an empirical basis.

At this point it will be useful to inform the reader about my own ontological and epistemological standpoint. As an institutional theorist trained in cognitive and social psychology, I concur with the view that legitimacy is subjectively bestowed and represents a relationship between a legitimacy subject and a legitimacy-conferring group of beholders (Suchman, 1995). Notwithstanding this constructionist stance and my conviction that social scientists deal with *perceptions* of reality, not with reality per se, I maintain that, in order to develop the legitimacy construct, it is necessary to concentrate more on the operationalization, testing, and replication of the ideational processes and mechanisms underlying perceptions of legitimacy. Considering that research on legitimacy and social judgments has matured in the last few years, particularly with regard to adding specificity to the intra-individual antecedents of legitimacy and the relationships between micro-level constructs (Bitektine, 2011; Tost, 2011), institutional researchers need to establish greater consistency between theory and methodology (Edmondson & McManus, 2007). This requires that researchers go beyond the "acceptance of findings from single, uncorroborated studies as fact" (Ferris, Hochwarter, & Buckley, 2012: 96), and employ to a greater degree methods that allow them to specify and test their theoretical claims. Embarking on such a journey, I believe, will clarify and bolster the legitimacy construct in institutional thought.

2.3 Findings

2.3.1 General Development and Conceptual Issues

The number of academic articles on legitimacy in the context of institutional theory that have been published in the six leading journals in management and organization studies has been increasing steadily over the last three decades, as Figure 1 illustrates. For instance, in the period 2005–2009 articles on legitimacy composed 1.38 percent of all publications in the six leading journals selected for this study (see Appendix C for details on how the search and calculation were performed). Notably, the rise in scholarly interest in legitimacy has outpaced the overall growth of institutional theory: whereas in the 1985–1989 period articles on legitimacy account for about 3 percent of all publications in institutional theory, in the 2005–2009 period they represent more than 10 percent. As the above shows, the review of the available literature reveals that in organizational studies the prominence of the legitimacy

concept has been growing at a faster pace than institutional theory as a whole (David & Bitektine, 2009).

Table 1: Quantification of Literature Review

			1980-1984	1985-1989	1990-1994	1995-1999	2000-2004	2005-2010	Total
1	General	Empirical articles	1	2	5	7	20	27	62
2		AMR articles	0	1	1	4	1	6	13
3		Qualitative articles	0	2	1	1	11	12	27
4		Quantitative articles	1	0	2	4	8	13	28
5		Mixed methods articles	0	0	2	2	1	2	7
6	Approach a)	Variance articles	1	0	2	6	10	14	33
7		Process articles	0	2	3	2	9	12	29
8		Variance articles IV	1	0	1	2	7	12	23
9		Variance articles DV	0	0	1	3	4	1	9
10		Variance articles MV	0	0	0	2	1	1	4
11	Level	Macro-level	0	1	1	2	7	9	20
12	of analysis	Meso-level	1	1	1	5	10	13	31
13		Intra-organizational	0	0	1	0	1	4	6
14		Individual	0	0	2	0	3	0	5
15		Micro-level	0	0	3	0	4	4	11
16	Operation-	Indirect	1	0	2	4	4	7	18
17	alization b)	Direct	0	0	1	0	3	1	5
18		Text-based interpretive	0	0	0	2	3	1	6
19		Text-based implicit	0	2	1	1	5	11	20
20		Text-based explicit	0	0	2	1	5	8	16
21		Text-based overall	0	2	3	4	13	20	42
22	Data	Observation	0	1	1	1	4	3	10
23	sources	Survey	0	0	1	0	4	1	6
24	specific c)	Interviews	0	2	3	1	8	10	24
25		Media coverage	0	0	2	1	8	12	23
26		Other public sources	1	0	2	3	5	8	19
27		Documents	0	2	4	3	9	14	32
28	Data	Primary data sources	0	1	0	0	3	3	7
29	sources	Secondary data sources	1	1	2	6	10	14	34
30	general	Mixed data sources	0	0	3	1	7	10	21

Notes: *a) For Pollock & Rindova 2003 AMJ, Ruef & Scott 1998 ASQ, and Townley 1997 OS I created double entries. In these variance articles legitimacy is conceptualized as both DV (dependent variable) and IV (independent variable) or as both IV and MV (moderating variable). Therefore, the total of process articles and variance articles subdivided by variable types amounts to 65, and not to 62.*

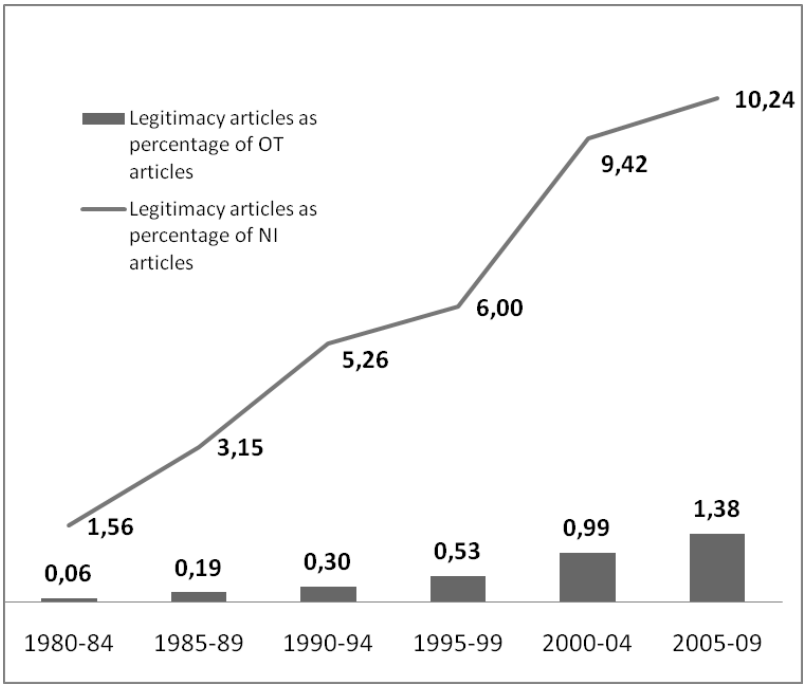
b) For Elsbach 1994 ASQ, Barron 1998 OS, Khaire 2005 OrgSci I created double entries, as they respectively draw on operationalizations that fall into two separate categories.

c) Most studies draw on several data sources. The table lists all data sources, therefore the data source total amounts to 114.

The increasing interest in legitimacy, however, has only been partly matched by an increase in conceptual consistency and clarity. Although frequent references to Suchman's treatment of legitimacy (1995) as "a generalized perception" clearly demonstrate an emerging consensus on the definition of legitimacy, there is less agreement on its various *dimensions*; that is, on

the behavioral foundations of legitimacy (Bitektine, 2011). In that respect, the constructs of legitimacy range from "implicitly monolithic" (i.e., the issue of multidimensionality is not brought up at all), to "explicitly monolithic" (i.e., they address multidimensionality but the monolithic approach is retained; Kostova & Zaheer, 1999), to two-dimensional (Aldrich & Fiol, 1994; Deephouse, 1996; Ruef & Scott, 1998), or three-dimensional (Scott, 2008; Suchman, 1995). Other studies address issue-specific types of legitimacy, such as corporate environmental legitimacy (Bansal & Clelland, 2004) or more idiosyncratic conceptions of legitimacy (Higgins & Gulati, 2006; Human & Provan, 2000; Zimmerman & Zeitz, 2002). Although many studies do acknowledge the issue of multidimensionality, only a handful translates this insight into appropriate methodological designs (Archibald, 2008; Barron, 1998; Foreman & Whetten, 2002; Golant & Sillince, 2007; Sine, Haveman, & Tolbert, 2005). Such designs distinguish between different types of legitimacy; also, they specify the temporal and causal relationships between various forms of legitimacy, addressing questions such as whether normative or moral legitimacy precedes cognitive legitimacy or vice versa (Golant & Sillince, 2007; Phillips & Malhotra, 2008; see also Greenwood, Suddaby, & Hinings, 2002).

Figure 1: Percent of Articles Discussing Legitimacy



In addition to the issue of multidimensionality there is significant disagreement on (or indifference to) the question of whether legitimacy should be treated as a *dichotomous*

concept (Deephouse & Suchman, 2008) or as an *ordinal* variable; the latter would imply that organizations can be perceived to score relatively higher or lower on legitimacy (Hudson & Okhuysen, 2009; Tost, 2011). Examining the nature of scale levels is important for studies relying on quantitative analyses, as conclusions drawn from inferential statistics often require variables measured on the ordinal scale level (Tabachnick & Fidell, 2007). However, I find that extant legitimacy research tends to ignore the issue of scale intervals and frequently presumes a continuous scale of measurement on aggregate levels of analysis. So far, no study has tested which type of scale levels represents effectively individual-level structures and reactions such as mental schemata and attitudes, and whether they correspond to prevalent sense-making activities related to legitimacy on the individual level. The above indicates that different authors may conceptualize legitimacy very differently and attach various meanings to the legitimacy construct.

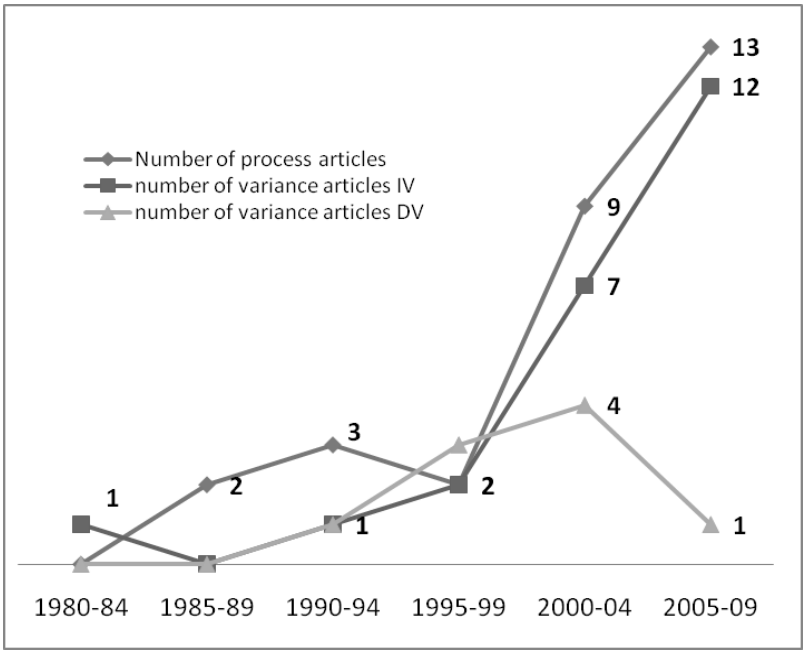
Besides this ambiguity, my review reveals that the boundaries between the legitimacy concept and related concepts, such as reputation, status, prestige, image, and stigma, are rather fuzzy. Whereas several authors have made a significant effort to differentiate analytically and empirically between legitimacy and reputation (Bitektine, 2011; Deephouse & Carter, 2005; Deephouse & Suchman, 2008; King & Whetten, 2008; Ruef & Scott, 2008), few have explored the extent to which findings on other forms of social judgments add to a cumulative body of knowledge on legitimation processes and to the validation of the legitimacy construct. For instance, Hudson and Okhuysen's research (2009) offers highly fascinating insights into the survival strategies of stigmatized men's bathhouses. The work is compelling to read, both because of its innovativeness and descriptive detail. Nevertheless, it is unclear why the authors have chosen the novel yet weakly discriminatory concept of stigma over the familiar and well-established notion of illegitimacy (e.g., Dougherty & Heller, 1994). Another point is that identical measures are often used for different constructs. For instance, counting the number of positive evaluations in the media may be used to measure legitimacy (Deephouse, 1996) or reputation (Deephouse, 2000). To recap, a first assessment of my sample reveals that, while the concept of legitimacy is gaining ground in institutional theory, it is often stretched and marked by ambiguity in much of the literature.

2.3.2 Research Approach and Analysis Techniques

Following Mohr (1982) and Langley (1999), I distinguish between "variance" and "process" approaches in my analysis of articles on legitimacy. Variance approaches aim to explain the causal relationships between dependent and independent variables, taking into account the

influence of moderating and mediating factors. Process approaches, in contrast, identify and interpret recurring data patterns and seek to explain the various processes underlying observable outcomes. Whereas variance approaches commonly test deductively derived hypotheses by using cross-sectional or longitudinal quantitative methods, process approaches often employ descriptive case studies that collect detailed real-time or retrospective data through qualitative methods, such as interviews or observation. In contrast to David and Bitektine (2009), who observe an overall increase in the use of qualitative methods in institutional theory, in the narrower field of research on legitimacy I note a steady increase in both qualitative and quantitative techniques of data analysis (see rows 3 and 4 in Table 1). Of course, the dichotomous distinction between the results obtained through process methods and through variance methods is artificial in cases where it is difficult to clearly assign an article to either approach (Langley, 1999). Nevertheless, as in the case of differentiating between quantitative and qualitative research methods in institutional research (David & Bitektine, 2009), this distinction provides a useful heuristic for identifying broader patterns in the development of empirical research on legitimacy over time.

Figure 2: Frequency of Process versus Variances Articles



Looking at the overall sample, I identified 33 articles that employ a variance approach and 29 articles that employ a process approach (see rows 6 and 7 of Table 1). Most variance articles focus on legitimacy as an *independent* variable. Figure 2 shows that this is particularly apparent in the 2005–2009 period: 13 process articles and 12 variance articles focusing on

legitimacy as an *independent* variable were published during that period. In contrast, there is a single publication that examines legitimacy as a *dependent* variable (i.e., Deephouse & Carter, 2005). This indicates that the underlying processes associated with legitimacy and legitimation are increasingly investigated, with *Organization Studies* taking the lead (13 of the 29 process articles were published in that European outlet). It also shows that legitimacy is primarily examined as an independent variable and is linked to various organizational phenomena, such as market entry (Lee & Paruchuri, 2008), stock option adoption (Sanders & Tuschke, 2007), inter-organizational imitation (Barreto & Baden-Fuller, 2006), new venture growth (Khaire, 2010; Sine, David, & Mitsuhashi, 2007), firm investment (Higgins & Gulati, 2006) and institutional change (Sherer & Lee, 2002), among many others. Overall, as it can be seen, variance approaches rarely examine legitimacy as a dependent variable and, by extension, as a social phenomenon in its own right.

2.3.3 Levels of Analysis

The next step of my review involves the classification of articles by level of analysis. Kostova and Zaheer (1999) argue that examining legitimacy at the population and organizational levels is not sufficient for illuminating issues related to legitimacy in complex organizations such as multinational enterprises. They therefore distinguish between overall organizational legitimacy and the legitimacy of organizational subunits. In a related study, Ruef and Scott (1998) suggested that legitimation processes should be divided into three levels of analysis; namely, entire organizational populations, individual organizations, and subunits and specialized aspects of organizations.

Notwithstanding the call for increased attention of the micro-level of institutions (Palmer & Biggart, 2008; Powell & Colyvas, 2008; Zucker, 1991) there is a lack a consensus on how the "micro-level" of analysis is to be understood in research on legitimacy. In my analysis, I apply the term "micro" to denote levels of analysis that are located *below* the organizational or "meso" level of analysis. I differentiate between three layers of micro-level analysis: (1) the intra-organizational or organizational sub-unit level (e.g. branch, department, or group level), (2) the individual level, and (3) the intra-individual level. The *macro-category*, which lies *above* the organizational level of analysis, is divided in its turn into different layers that encompass the organizational form or population level, the field, industry, or sector level, the regional or national level, and the global or world level (Scott, 2008).

Overall, I detected 20 articles that address the inter-organizational or *macro-level* of analysis (see row 11 in Table 1). Furthermore, I identified 31 articles that are concerned with

the organizational or *meso-level* of analysis (see row 12 in Table 1), and 11 articles that are concerned with the *micro-level*. Of the latter, five studies deal with the individual level and six studies with the intra-organizational level of analysis. Whereas the number of meso- and macro-studies has been growing at a constant pace, the number of micro-studies seems to have stagnated (see rows 11–15 in Table 1). In fact, within the 2005–2009 period, no study focused on the individual level of analysis (however, see works not covered by my sample, i.e. the conceptual papers of Johnson et al., [2006] and the empirical study of Sitkin and George [2005]). Also, in the entire 30-year period there is no study that addresses the *intra-individual* level of legitimation, that is, examining the cognitive and/or affective processes that take place within the psyche of individuals (notable exceptions are the conceptual studies of Bitektine [2011] and Tost [2011], which are not part of the present sample of empirical papers). In sum, my appraisal of the literature on legitimacy reveals that most studies concentrate on the organizational or meso-level of analysis, but pay much less attention to the micro-level.

2.3.4 Data Sources and Operationalization

Institutional scholars engaged in legitimacy research have drawn on a variety of data sources, the most prevalent of which are interviews, documents, and media coverage. My analysis shows that the usage of these three types of sources, as well as that of publicly available data, such as directories and indexes, has been increasing (see rows 22–27 of Table 1). On the other hand, observation and surveys are less frequently used for gathering data. Overall, most studies draw upon *secondary* data, i.e. data produced by someone other than the researcher (i.e. data sources such as the media, documents or other public source). In contrast, only seven studies rely fully on *primary* data sources, i.e. data that has been collected directly by the researcher (i.e., by means of observation, surveys, and interviews). At the same time, there is a gradual increase in studies relying on both primary and secondary data sources.

I also examined the various types of "operationalization" that researchers have used to study legitimacy and legitimation. I put the term "operationalization" in quotation marks because the notion of "measuring" corresponds to a realist epistemology, which presumes the existence of an objective reality that is "out there." This contrasts with the assumption of more interpretive epistemologies that reality is subjectively perceived and cannot be easily measured (Burrell & Morgan, 1979). Despite this controversy, I nevertheless apply the term "operationalization" to indicate my interest in the ways in which the analytical construct of legitimacy as a "generalized perception" (Suchman, 1995) has been aligned to empirical

correlates. Analyzing the studies in my sample reveals that the existence of legitimacy or illegitimacy and the process of legitimation are often assumed but not directly inferred from the respective data. Furthermore, bar few exceptions (i.e., studies drawing on research in organizational ecology), there is no standard operationalization of legitimacy. I arranged the literature by devising three general categories corresponding to (1) indirect, (2) direct, and (3) text-based measures of legitimacy. I classified operationalization as "indirect" whenever it was based on observable measures at the meso- or macro-level of analysis. This applied to studies that used density measures (i.e., indicators that gauge the number of organizations within a given field) as a proxy primarily for cognitive legitimacy (Barron, 1998), as well as to studies that measured legitimacy in terms of the institutional linkages between organizations and already fully legitimate entities (Baum & Oliver, 1991; Ruef & Scott, 1998). I also classified measures as "indirect" wherever legitimacy had been deduced from adoption rates (Arthur, 2003), adoptee characteristics (Tolbert & Zucker, 1983), amendments (Sanders & Tuschke, 2007), conformity to institutional expectations (Khaire, 2010; Westphal, Gulati, & Shortell, 1997; Zott & Huy, 2006), won certification contests (Rao, 1994), and strategic similarity (Deephouse, 1999). These measures can be labeled as indirect, as they cannot eliminate with certainty alternative explanations of observed patterns and thus do not offer an unequivocal assessment of legitimacy (on density measures, see Baum & Powell, 1995; Zucker, 1989. On indirect measures of adoption motivation, see Donaldson, 1995; Kennedy & Fiss, 2009; Vergne, 2010).

At the other extreme, I referred to operationalization as "direct" wherever it was grounded in unambiguous assessments at the micro-level of analysis. On the level of individuals legitimacy becomes fully empirical, or "testable," because on this level it is relatively easy to determine an empirical correlate to the perceptual components of legitimacy. Typically, direct operationalization involved experiments (Elsbach, 1994) or quantification strategies using attitude scales embedded in surveys (Foreman & Whetten, 2002; Kennedy & Fiss, 2009; Staw & Epstein, 2000). For instance, Glynn and Abzug (2002) assessed legitimacy as the percentage of responses categorized correctly specific (i.e. named) organizations into industries, which the authors interpreted as representative of the degree of the respective organizations' understandability or cognitive legitimacy.

Importantly, as the selected studies fail to capture differences in the subjective reception and interpretation of texts and cannot determine the perceptual components of legitimacy and legitimation at the micro-level (see the discussion further below), I decided to

devise a separate category for text-based evaluations of legitimacy. By "text" I mean all types of transcriptions, such as articles, essays, media coverage, and interview transcripts. I divided text-based assessments into three subcategories—explicit, implicit, and interpretive—depending on how rigorously they operationalized the concept at hand. More precisely, before I classified each study, I checked whether the respective texts had been convincingly and comprehensibly translated into a reliable assessment of legitimacy. The category "explicitly text-based" comprised highly rigorous and traceable treatments of legitimacy, which typically applied quantitative coding schemes and calculations for issue frequency and tenor, such as the Janis-Fadner coefficient of imbalance (Bansal & Clelland, 2004; Deephouse, 1996; Deephouse & Carter, 2005; Pollock & Rindova, 2003). It also included studies characterized by highly transparent qualitative categorizations of legitimacy or legitimacy-inducing activities (Greenwood & Suddaby, 2005; Creed, Scully, & Austin 2002; Lamertz, Heugens, & Calmet, 2005).

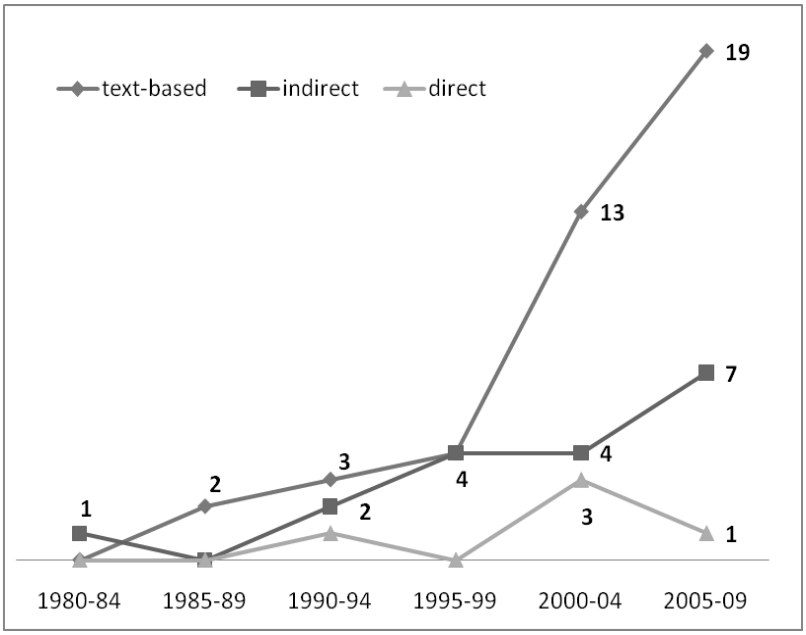
In the category called "text-based implicit" I included studies that take a more interpretive approach to texts and meaning, do not make use of quantitative computations, and do not give sufficiently detailed accounts of the process of documentation they have followed or of their qualitative coding decisions. However, all these studies indicated how the authors interpreted the respective texts, and how they concluded that certain texts had a legitimating effect. Also, they made clear how legitimacy has been inferred from discourses, narratives, or rhetoric. The criterion for categorizing articles as implicitly text-based was that their authors supported their arguments by quoting material directly from texts. For instance, Elsbach and Sutton (1992) cite several passages from transcribed interviews and record data to develop a process model of organizational legitimation. They thereby make a compelling case for a text-based understanding of legitimacy.

Finally, articles that were characterized by idiosyncratic assessments of legitimacy were assigned to a third category labeled "text-based interpretive"; such articles could only be compared to other studies on legitimacy to a limited degree, if at all. Without disregarding the merit of interpretive research that focuses on the thick description of a particular case, it should be noted that in these qualitative studies it remained unclear how legitimacy or illegitimacy was actually inferred from the data (Anand & Watson, 2004; Lynn & Rao, 1995).

As illustrated in Figure 3, text-based operationalization clearly dominates the literature on legitimacy in institutional theory. Overall, 42 studies use text-based assessments of legitimacy, clearly exceeding the 18 studies that draw upon indirect measures and the five

studies relying on direct measures. Within the text category, implicit treatments are most frequent, followed by explicit and interpretive assessments (see rows 18–20 of Table 1). Looking at the entire period this study spans, it becomes apparent that text-based measures have been increasingly outpacing indirect and direct measures; in fact, the latter—rarely applied—have been in decline during the 2005–2009 period.

Figure 3: Frequencies of Legitimacy Measures

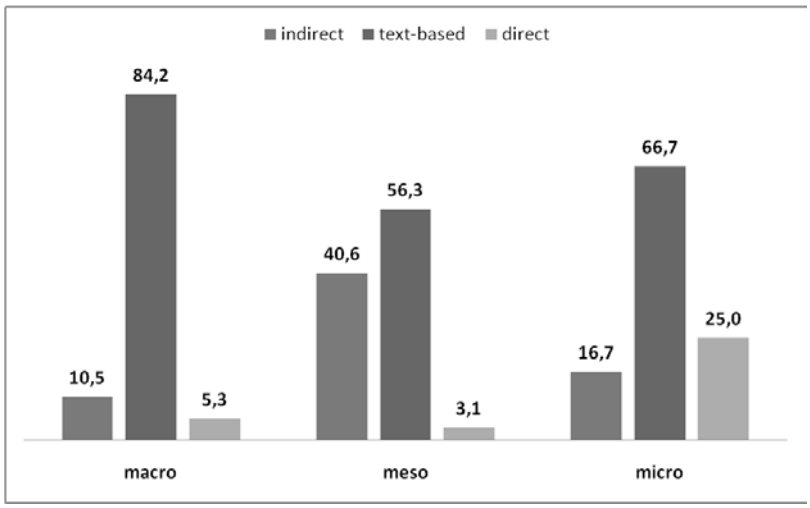


An overreliance on textual data was also detected in the 12 micro-studies identified in the sample. When mapping operationalization versus level of analysis, I discovered that two thirds of the micro-studies on legitimacy in the sample relied on text analysis—an even higher proportion than in works concerned with the meso-level of analysis (see Figure 4).

The dominance of textual data at the micro-level is rather troubling because of the validity claims put forward by micro-research; certain assertions about individual-level phenomena simply *cannot* be inferred from textual analysis. For instance, Pollock and Rindova (2003) suggest that media-provided information affects the ascription of legitimacy to newly public firms. The authors argue that the study's regression findings provide evidence that positive media coverage adds to a firm's legitimacy and influences investor behavior. Clearly, such a causal claim about a perceptual process cannot be adequately addressed by a regression design, but requires additional evidence based on individual-level data; for instance, through expert interviews or experimental research. The study of Pollock and Rindova (2003) is characterized by a *mismatch* between theoretical conclusions on the legitimacy beliefs and behavioral dispositions of individuals on the one hand, and the

measures and data analysis techniques employed on the other hand. This is because the chosen research design cannot eliminate alternative explanations of variance in investor behavior, such as individual or organizational learning. It should be stressed that the authors are aware of this methodological flaw and acknowledge that they can "only speculate about the socio-cognitive processes that relate specific information attributes to specific cognitive and behavioral outcomes at the individual level" (Pollock & Rindova, 2003: 640). Indeed, the purpose of this review is not to criticize their study, but to highlight the insufficiency of textual data and text analysis in establishing the causal relationships that underlie the perceptual and multi-level aspects of legitimacy, a point I discuss at length below.

Figure 4: Measurement Split for Level of Analysis



2.4 Blind Spots in Extant Legitimacy Research

As language is central to the construction of reality, the textual analysis of public discourses and transcripts plays a pivotal role and has added greatly to the understanding of legitimacy, legitimation and institutional processes. However, when used on its own, text analysis is not a sufficient means of examining legitimacy. The reason for this is that relying exclusively on text entrenches methodological conventions and prevents institutional scholars from making progress in conceptualizing legitimacy as an inherently contingent and subjective phenomenon. By overly drawing on text analysis, institutional analysts miss the opportunity to try out alternative approaches to legitimacy, namely those that would allow them to make causal inferences on the intra-individual antecedents, processes, and consequences of legitimacy (Tost, 2011). There are several arguments that back this position. First, text analysis is limited to elucidating the processes that underlie the micro-production of texts; that

is, it mostly ignores the daily conversational practices that contribute to the emergence and consolidation of texts (Barley, 2008). Second, it is not possible to conceptualize the idiosyncratic micro-implications of texts through text analysis; namely, how texts and framing texts in different ways shape perceptions and beliefs of legitimacy amongst heterogeneous audiences. Third, approaches rooted in text analysis have clear limitations. This is because approaches that focus on public discourse, rhetorical accounts, and media frames are inappropriate for tracking the stage of cognitive legitimacy, which is characterized by the absence of questioning and is thus unlikely to produce any textual data (Deephouse & Suchman, 2008).

2.4.1 The Production of Text

A main shortcoming of text analysis is that it does not account adequately for the socio-cognitive and behavioral processes underlying the *production* of texts. Indeed, several authors are concerned about the increasing dominance of "taxonomic" approaches in conceptual accounts of legitimacy (Phillips & Malhotra, 2008) and about the tendency of scholars to write "more about sources of legitimacy, about whom and or what bestows it, than about *how* it is bestowed" (Barley, 2008: 506, emphasis added by the author). Texts offer no insights into the daily practices and conversations that contribute to the emergence and consolidation of existing meanings. Although texts facilitate interpretive-longitudinal analysis over longer periods, as Barley notes, they "often have little to say […] about how people arrived at those interpretations or what the members of various factions did to each other." Texts, he adds, "are almost always silent on what led to the creation of the document in the first place" (Barley, 2008: 507). Thus, the analysis of textual data cannot capture the struggle for legitimation and the ways in which meanings are created and enacted over time. An interactionist perspective, as proposed by Barley (2008), requires shifting the attention of researchers away from a *monological* and towards a *dialogical* conception of legitimation, in order to take into account the discursive interactions that engender shared definitions of reality. That is, researchers must acknowledge that social environments are inherently political spaces where audiences confront each other with competing arguments and contrasting evaluations (Palazzo & Scherer, 2006). The recent call by Suddaby and Greenwood (2005: 62) to examine not only public debates but also the "backstage components" of *private* debates is instructive insofar as it signals an increasing sensitivity towards the limits of the conventional textual approach. In sum, textual analysis—if applied in isolation—leaves the social construction of meaning largely unaddressed and limits

researchers to what is referred to as "black-box theorizing," that is, to making inferences on the behavioral components and mechanisms of legitimacy without being able to explain them in depth. As Barley (2008: 508) appropriately writes: "Reading and rhetoric are important for negotiating legitimacy, but words break no bones."

2.4.2 The Impact of Texts

A second deficiency of text analysis is its inability to assess the *micro-effects* of texts; that is, the impact of communication around legitimacy on sense-making and on the construction of legitimacy beliefs amongst various organizational constituents. Most applications of text analysis in institutional theory do not consider the *constitutive* character of communication. Nevertheless, daily conversations not only reflect but, what's more, facilitate or impede the emergence of shared understandings and meanings of organizational reality (Ashcraft, Kuhn, & Cooren, 2009). Moreover, most authors emphasize that legitimacy is ascribed by multiple beholders with heterogeneous expectations and predispositions (Desai, 2011; Lamin & Zaheer, 2012; Tost, 2011; Voronov & Vince, 2012). In such complex settings, it may be hard or even impossible for organizations to recognize or even respond to all the different demands may prove impossible (Ashforth & Gibbs, 1990). Most empirical research to date has not acknowledged that legitimacy represents a multifaceted phenomenon that encompasses both approval and disapproval. The existing institutional literature presumes, often implicitly, that the effects of text are strong and homogenous regardless of the audience. Yet, "legitimacy represents a *relationship* with an audience, rather than […] a *possession* of the organization" (Suchman, 1995: 592, emphasis in the original).

Crucially, organizations and organizational activities can be perceived as legitimate or illegitimate depending on the respective interest group (Lamin & Zaheer, 2012). A case in point is the Royal Bank of Scotland, which in January 2010 received both a "greenwash" award (the "Public Eye Award"), meant as criticism of the bank's unsustainable financing of Canadian tar sands, and a sustainability award (the "Global 100: Most Sustainable Corporations in the World") that acknowledged it as one of the most sustainable large corporations in the world. However, the press took no notice of this contradiction and focused on the more "newsworthy" greenwash award, corroborating the suspicion that textual analysis may be insufficient to account for the inherent complexities and fragmented character of legitimacy ascriptions. Approaches that are purely based on text analysis overlook the fact that legitimacy subjects become evaluated by audiences with different degrees of involvement and varying dispositional qualities (Deephouse & Suchman, 2008). However, in fact,

"perceptions are *heterogeneously distributed across space and time* [while] firms' attributes and actions are not constant over time nor are the norms with which they should be congruent" (Vergne, 2010: 485, emphasis in the original). This also explains why ill-conceived attempts to establish some sort of dialogue between organizations and their environments may lead to the opposite results than those intended. Inevitably, legitimacy strategies that are not adjusted to a particular societal environment will not yield the desired outcomes but instead will be met with criticism from certain quarters (see Lange & Washburn, 2012, for the case on corporate social responsibility).

Empirical research on legitimacy has so far neglected one of the central tenets of the relevant theory, namely that legitimacy "resides in the eye of the beholder" (Ashforth & Gibbs, 1990: 177). According to this principle, legitimacy is subjectively bestowed and understood as a perceptual phenomenon (Suchman, 1995). How legitimacy is constructed, however, and what impact individual factors and psychological processes have on legitimation remains largely unaddressed. This reflects a general tendency among institutional analysts to avoid incorporating individuals and cognition into their research (George, Chattopadhyay, Sitkin, & Barden, 2006; Kennedy & Fiss, 2009; Suddaby, 2010a; Thornton, Ocasio, & Lounsbury, 2012; see also DiMaggio, 1997). A welcome exception is Elsbach's study (1994), which combines works from the institutional and the impression management literature. Elsbach found that the effectiveness of legitimacy accounts is contingent upon factors encountered on the individual level, such as an audience's perceptions of the type and severity of controversial actions, its expertise in a controversial issue, and its expectations of organizational responses. The sociological research on legitimacy, which emphasizes that it is important for an organization's actions and policies to find resonance with actors in its societal environment, could be fruitfully contrasted with a number of psychological theories that emphasize the idea of cognitive congruence—i.e. the need to maximize the internal consistency of cognitive structures such as mental schemas and attitudes (Markus & Zajonc, 1985). Furthermore, environmental stimuli are interpreted in an affect-congruent manner. For instance, individuals in positive affective states consider positive outcomes more likely, whereas in unpleasant affective states they perceive negative events or outcomes as more likely (Forgas, 2003; Schwarz, & Clore, 1983). In the field of political communication, studies on survey response and attitude change show that the effects of communication tend to vary among citizens (Zaller, 1992), and appear strongest among the politically involved (Krosnick & Bannon, 1993) and those who are politically interested and educated (Luskin,

1987). Likewise, research in media psychology has demonstrated that arguments must match the predispositions of the target audience in order to have an effect and to "make sense" (Sniderman, Brody, & Tetlock, 1991). It is obvious that insights from these fields could complement research on legitimation on the micro- and multi-level. Text analysis alone, however, can neither ascertain the degree of congruence between an organization and its environment nor account for the range of variance in the subjective interpretations of texts.

2.4.3 The Absence of Texts

A final point is that although text analysis is appropriate for investigating the non-cognitive dimensions of legitimacy, it is inadequate for examining cognitive legitimacy; that is, legitimacy based on either comprehensibility or taken-for-grantedness (Suchman, 1995). Drawing on a tripartite concept of legitimacy, which encompasses cognitive, practical, and moral dimensions, Suchman (1995) explains that *cognitive* legitimacy is predicated on unspoken orienting assumptions. In contrast, *pragmatic* legitimacy and *moral* legitimacy rest on discursive evaluations: "Audiences arrive at cost–benefit appraisals and ethical judgments largely through explicit public discussion, and organizations often can win pragmatic and moral legitimacy by participating vigorously in such dialogues" (Suchman, 1995: 585). Scott (2008: 51–61) acknowledges that conceptual progress will be made by "distinguishing among the several components elements [of institutions] and identifying their different underlying assumptions, mechanisms, and indicators," adding that cognitive mechanisms provide the deepest foundations of institutional forms. Greenwood and his colleagues (2002) describe moral and pragmatic legitimacy as predecessors of cognitive legitimacy (Golant & Sillince, 2007; Hoffman, 1999; Phillips & Malhotra, 2008). On the whole, more enduring and less manipulable cognitive legitimacy can be seen as the *result* of evaluative legitimation (Phillips & Malhotra, 2008) as taken-for-granted notions are shaped and reshaped by evaluative comparisons and interpretations in the first place. Thus, *evaluative* legitimacy—subsuming both pragmatic and moral legitimacy—eventually develops into cognitive legitimacy and serves as an indicator of long-term cognitive and behavioral change (Golant & Sillince, 2007).

Conventional approaches based on text analysis work well for describing evaluative legitimacy but cannot be used for examining cognitive legitimacy. A main characteristic of cognitive legitimacy is a lack of questioning, which means that highly legitimate subjects are unlikely to get significant coverage in the media or in other communicative sources: "The taken-for-grantedness of a well-established activity may be reflected in the complete *absence* of press coverage, because the subject has blended into the cultural landscape and is no longer

seen as requiring social scrutiny or as being 'newsworthy' according to prevailing journalistic practices" (Deephouse & Suchman 2008: 54; emphasis in the original). Therefore, subjects that have achieved a high degree of cognitive legitimacy cannot be identified by text analysis, at least not until questions are asked or rhetorical accounts and justifications are proposed. Instead, cognitive legitimacy is "revealed most clearly in the breach" that is, in the violations of the "undiscussed boundaries of taken-for-granted understandings" (Schneiberg & Clemens, 2006: 212–214).

Violations of cognitive legitimacy trigger public controversies and produce documentary output suitable for the textual analysis of evaluative legitimacy. However, the analysis of cognitive legitimacy cannot rely on the coding of public discourse or of evaluative statements according to their favorability—a method used to compute the Janis-Fadner coefficient, for instance, (see above). In response, institutional scholars have started to infer cognitive legitimacy from the lack of public discourse on a certain legitimacy subject or issue. Green (2004), for instance, points out that a *decline* in rhetorical justification without a corresponding decrease in the diffusion of a practice indicates the status of taken-for-grantedness of that practice. Although this approach may be adequate for assessing the dimension of *comprehensibility* in cognitive legitimacy, I maintain that text-based procedures cannot discriminate between the status of taken-for-grantedness, where a legitimacy subject is perceived as highly legitimate, and an "undetermined" legitimacy status; that is, a situation where beholders are unable or unwilling to make sense of a specific legitimacy subject and perceive this subject neither as legitimate nor as illegitimate (Bitektine, 2011). As both undetermined and taken-for-granted statuses are characterized by the absence of communication, text analysis alone is not sufficient for identifying each status accurately and unequivocally and for differentiating between them.

2.4.4 Summary

Legitimacy as a "generalized perception" (Suchman, 1995: 574) describes the degree to which a particular legitimacy subject gains collective approval. Collective approval, however, is a subjectively created social judgment that derives from the coalescence and consolidation of individual perceptions (Zimmerman & Zeitz, 2002). Thus, examining the intra-individual antecedents of judgments on legitimacy as a "microfoundation" of legitimacy would shed light on attitudes and reactions to specific legitimacy subjects, as well as on the social and communicative interactions that ultimately constitute legitimacy as a collective-level phenomenon (Bitektine, 2011; Johnson et al., 2006). At the same time "validity cues," i.e., the

perceived social consensus with respect to a legitimacy subject, feed into and influence judgments of legitimacy on the level of individuals (Tost, 2011). In spite of this, most studies in institutional theory eschew the micro- and multi-level and are primarily concerned with analyzing phenomena at the macro- and meso-level of analysis. My review of the selected literature revealed that legitimacy is rarely subjected to a thorough examination as a phenomenon it its own right; moreover, the assessments of legitimacy as a phenomenon, if any, are often ambiguous, imprecise, and are presented in an ad-hoc manner, identifying only vague links between the legitimacy construct and the corresponding empirical measure. In consequence, relatively little is known about *how* individuals assess the legitimacy of organizations, practices, structures, and other types of legitimacy subjects, and how individual evaluations cumulatively constitute legitimacy at the collective level. Recent conceptual studies have explicated a set of basic psychological processes underlying the formation of legitimacy and other types of social judgments (Bitektine, 2011; Tost, 2011; see also Mishina, Block, & Mannor, 2011) and also theorized how social and institutional contexts cue the cognitions, emotions, and legitimacy beliefs of individuals (Haack and Scherer, 2012). Importantly, these studies counterbalance the current bias against the micro-level of analysis and prepare the ground for empirical analyses on the micro- and multi-level in research on legitimacy. In the next section I introduce a set of experimental methods that have the potential to advance such a research agenda.

2.5 Towards a Remedy: Experiments

In social science research, the term "experiment" refers to the random assignment of units of analysis (typically human participants) to different groups. Given that groups only vary with respect to the manipulated variable (the "treatment variable"), changes in the outcome variable can be attributed to the manipulation. Experiments have certain important advantages (Aronson et al., 1990; Stone-Romero, 2009); namely, they provide evidence for causal inference, they allow the researcher to control for the influence of external variables, and they help explore the parameters of a complex construct. Various authors have encouraged the greater use of experimental designs in institutional research (Bitektine, 2011; Boxenbaum & Jonnson, 2008; David & Bitektine, 2009; Green, 2004; Kennedy & Fiss, 2009; Thornton et al., 2012; Vince & Voronov, 2012), emphasizing that they would enable scholars to scrutinize critically the relationships "that are often suggested but difficult to isolate in contextually rich field studies" (David & Bitektine, 2009: 171). However, although the suggestion that

experiments should be used more widely in institutional research is frequently made, it is seldom followed, possibly because of a lack of training in and familiarity with this type of research approach.

Given the current skepticism towards experiments and the widespread perception that experiments represent a prototypical example of a positivist epistemology that emphasizes "the empirical analysis of concrete relationships in an external social world" (Morgan & Smircich, 1980: 493), it will be useful to introduce a set of experimental methods that will help lift misunderstandings about the purpose of experiments and highlight their potential to advance the research agenda on legitimacy. More specifically, below I will discuss laboratory experiments (settings that are created and fully controlled by the researcher), survey experiments (procedures where the experimental manipulation is embedded in a conventional survey), deliberation experiments (settings that facilitate structured discussions on a specific issue), and cognitive neuroscience experiments (procedures that examine the neural correlates of mental processes).

2.5.1 Laboratory Experiments

Laboratory experiments take place in an environment that is created for the purpose of specific research, is fully controlled by the researcher, and usually involves undergraduate students as participants (Colquitt, 2008). Because the highly controlled setting of a laboratory minimizes the risk of random or systematic error, lab experiments have high "internal validity," that is, a researcher can draw causal conclusions from his or her research results with a large degree of confidence (Aronson et al., 1990; Wilson, Aronson, & Carlsmith, 2010).

Lab experiments have a long history in organizational research (Stone-Romero, Weaver, & Glenar, 1995; Weick, 1965). So far, however, only a few scholars have applied lab experiments to the study of legitimation and institutionalization (Elsbach, 1994; Zucker, 1977). Lab experiments are frequently criticized on two grounds (Highhouse, 2009). First, because of their artificiality, laboratory experiments are said to lack "mundane realism" as they do not resemble experiences in real-world settings. Second, student-based samples are not considered representative of the broader, non-student, population (Sears, 1986). On the whole, although lab experiments are valued for the elements of control and random assignment, they are considered to lack "external validity"; in other words, it is argued that researchers cannot generalize a causal relationship identified in such an experiment to settings and populations outside the university laboratory (Wilson et al., 2010).

Notwithstanding these concerns, various authors have argued that the preoccupation with external validity and generalization to the "real" world is misplaced or even detrimental to the advancement of "good" theory (Dobbins, Lane, & Steiner, 1988; Highhouse, 2009; Mook, 1983). The crucial point they make is that internal validity has priority over external validity, on the grounds that generalizing something that is wrong (i.e. internal invalid) is meaningless: "If random or systematic error makes it impossible for the experimenter even to draw any conclusions from the experiment, the question of the generality of these conclusions never arises" (Wilson et al., 2010: 75). The purpose of an experiment is thus not to test what happens in the real world but to test a deductively derived hypothesis on what might happen under certain conditions (Greenberg & Tomlinson, 2004; Highhouse, 2009; Mook, 1983).

Furthermore, mundane realism, i.e. the degree to which laboratory settings are similar to things that happen in non-laboratory settings, is only one form of realism. A second form, "experimental realism," concerns the degree to which laboratory procedures and settings capture the theorized construct and impact on participants as intended (Aronson & Carlsmith, 1968). Crucially, a high degree of mundane realism does not automatically correspond to a high degree of experimental realism (Wilson et al., 2010). A third form of realism has been termed "psychological realism" (Aronson, Wilson, & Akert, 1994). Psychological realism refers to the extent to which the psychological processes that occur in an experiment are representative of the psychological processes that occur outside the laboratory. When people engage in heuristic reasoning, for instance, they make judgments and decisions without great effort and cognitive deliberation (Shah & Oppenheimer, 2008). To study these sub-conscious phenomena, an appropriate approach would be to set up an experiment characterized by a high degree of psychological realism (Wilson et al., 2010). In sum, when assessing the external validity of a lab experiment, researchers need to consider both experimental and psychological realism and must be careful not to exaggerate the importance of mundane realism.

In the context of research on legitimacy, lab experiments seem particularly suitable for elucidating the heuristic foundation of legitimacy judgments and the behavioral implications of judgment heuristics. Recently, Bitektine (2011) argued that in a situation of uncertainty and bounded rationality beholders eschew the active processing of information and confer legitimacy heuristically. Haack and Scherer (2012) extended this line of argument and specified the mental mechanism underlying processes of heuristic judgment. In the future, institutional researchers could test deductively derived hypotheses on heuristic processes

associated with legitimacy by carrying out lab-based experiments on judgment formation, in which participants are asked to classify or evaluate (text-based) stimulus material. As self-reported measures that discriminate between legitimacy and other forms of social judgments (Bitektine, Vandenberghe, & Hill, 2012) require effortful thought, it would be highly recommended that researchers include "implicit measures" to capture the unconscious processes underlying the heuristic bestowal of legitimacy. Furthermore, given that self-reported measures are prone to several biases, applying behavioral and "behavioroid" measures—the latter referring to a "participant's commitment to perform a particular action without actually performing it" (Wilson et al., 2010: 72)—will help researchers to develop a better understanding of the attitudinal and behavioral dimension of legitimacy. For instance, carefully conducted lab experiments could prove crucial to exploring the antecedents and consequences of breaches in taken-for-grantedness and to advancing basic research on the issue of scale levels, and could thus help resolve the disagreement on whether legitimacy represents a dichotomous rather than a metric construct (Deephouse & Suchman, 2008).

2.5.2 Survey Experiments

Although the essence and significance of external validity have been misunderstood and overstated (Highhouse, 2009), institutional analysts ought to appreciate the concern of certain scholars about the problems that arise in artificial lab settings and student samples, as experimental research that has little relevance to non-laboratory settings would be inevitably irrelevant to organizational practice. I suggest that problems of external validity can be alleviated by applying more sophisticated research designs, such as survey experiments, which are already applied in research on public opinion (Gaines, Kuklinski, & Quirk, 2007). Survey experiments (also called "vignette experiments," see Atzmüller & Steiner, 2010) embed the treatment (i.e., the experimental manipulation) within a conventional survey, through which they gather individual-level characteristics of participants and use them as additional predictor variables in the analysis of the experimental data. The advantage of survey experiments is that they combine the benefits of surveys with those of experiments. Survey experiments have a high degree of internal validity because the experimental component allows researchers to randomize participants and control variables of interest. At the same time, survey experiments also have a high degree of external validity, because they overcome the problem of unrepresentative student samples (Sears, 1986). For instance, the expansion of experiments embedded in national surveys, carried out by the National Science Foundation (http://tess.experimentcentral.org/) and other organizations, enables researchers to

test their assumptions on large populations of randomly selected subjects. Also, the use of web platforms and realistic treatment conditions, (such as exposing participants to realistically presented news stories invented specifically for the purposes of the experiment), increases the similarity between the experimental situation and everyday experiences, further improving mundane realism (Gaines et al., 2007).

In the future, institutional scholars could capitalize on a mixed-method approach, triangulating text analysis with experimental approaches. More precisely, in survey experiments brief descriptions of specific scenarios in textual form would serve as stimulus material. Depending on the research purpose, an experiment could control for different grades of individual receptivity and for variation in the subjective interpretation of texts, or explore how the framing of an argument (e.g. the positivity or negativity of a text) affects perceptions of legitimacy. The results of such survey experiments could subsequently inform the development of text-analytical coding schemes and guide the researchers' coding decisions with reference to specific audiences; this would help reflect more accurately the heterogeneity of institutional contexts. In that way, survey experiments can validate less direct assessments of legitimacy that are conducted at higher levels of analysis. For instance, the study of Pollock and Rindova (2003), which discusses the impact of media coverage on the legitimacy of new firms (see "Data Sources and Operationalization") could be fruitfully complemented by experimental studies that directly test the socio-cognitive mechanisms underlying the ascription of legitimacy.

2.5.3 Deliberation Experiments

A major weakness of lab and survey experiments is that they disregard the influence of interpersonal interaction and communication (Druckman, Kuklinski, & Sigelman, 2009). Indeed, lab and survey experiments typically represent an isolated experience for participants. For that reason, they are of limited use in studying processes of social construction, and often offer little insight into how negotiations evolve dynamically, as they are mostly conducted at a particular point in time. Longitudinal aspects of legitimation or delegitimation could be investigated through panel experiments, which involve exposing the same pool of participants to a series of experiments on legitimacy. Such methods, however, lack both mundane and experimental realism in that they neglect contentious interaction and informational exchanges between the beholders of a legitimacy subject; that is, the practice of "everyday talk" (Druckman & Nelson, 2003).

A methodology I deem particularly useful for the micro-analysis of legitimacy and legitimation are (quasi-) experimental tests on structured discussions or deliberations. "Deliberation" can be defined broadly as "communication that induces reflection on preferences, values and interests in a non-coercive fashion" (Dryzek, 2000: 76). Empirical research on deliberation was pioneered in political science by James Fishkin (1991). His method of deliberative polling basically creates a counterfactual situation where a random sample of individuals is provided with competing perspectives on a specific policy issue that is then discussed under the supervision of trained moderators. As deliberation designs involve surveying pre- and post-deliberation opinions, as well as observing the actual discussion of a representative sample, they combine aspects of the "internal validity provided by experimental design, the external validity provided by actual deliberation about real-world issues, and the generalizability provided by surveys" (Carpini, Cook, & Jacobs, 2004: 333). Deliberation experiments thus represent a sub-type of "situated experiments"; that is, laboratory experiments conducted in a natural setting (Greenberg & Tomlinson, 2004).

Importantly, deliberative settings are not based on the reductionist view of legitimacy as the mere aggregate of individual attitudes but allow researchers to identify supra-individual aspects of cognition and to address the issue of how everyday practices and conversations create inter-subjectively shared typifications and meaning systems within a group (DiMaggio, 1997). Deliberation studies can therefore facilitate the empirical exploration of the negotiations and struggles that underlie both the production of prevailing texts and the suppression of marginalized voices. In the context of research on legitimacy, such studies could prove particularly relevant; a case in point is the finding that deeply polarized groups can gain a shared understanding of the sincerity and legitimacy of specific arguments, as shown in a study on the Catholic–Protestant divide on the issue of education in Northern Ireland (Fishkin, Luskin, O'Flynn, & Russell, 2009). Taking this study as a starting point, researchers could investigate how contending factions interact in a deliberative organizational setting. This would enable them to assess the psychological and discursive conditions and mechanisms involved in the processes through which the participants gather information about the issue at hand and come to see each other's arguments and actions as more or less appropriate and justified.

2.5.4 Cognitive Neuroscience Experiments

Finally, cognitive neuroscience experiments can help address one of the most important issues in legitimacy research, namely the emotional foundation of legitimacy (Scott, 2008). The

conditions under which positive or negative affect influences the conferral of legitimacy or illegitimacy are a topic of great interest. Combining experimental settings with new neuro-imaging technologies, such as functional resonance imaging, would allow institutional researchers, in collaboration with neuroscientists, to examine whether external stimuli activate certain brain regions and to determine more precisely the cognitive or emotional functions behind a given legitimacy judgment or behavior.

2.6 Discussion

In this paper I demonstrated that the methods available to institutional scholars conducting research on the socio-cognitive foundation of legitimacy are limited. The quantification of the results obtained through an in-depth literature review revealed that the legitimacy construct is used as a malleable tool to account for a plethora of phenomena but has been rarely studied as an empirical phenomenon in itself. A crucial observation was that institutional scholars rely excessively on textual data but ignore alternative treatments in the analysis of legitimacy. This led me to voice the suspicion that methodological conventions may have hampered the development of a stronger focus on legitimacy as a subjectively bestowed judgment. As a remedy, I proposed the use of experimental approaches, which could help diversify the methodological toolkit available to legitimacy researchers. In the following, I highlight the paper's contributions and discuss its broader implications for research and theory development in institutional theory.

2.6.1 Experiments: The Promise and the Challenge

Leading scholars on the topic of legitimacy suggest that legitimacy is subjectively bestowed and represents a relationship between a legitimacy subject and a collectivity of beholders (Deephouse & Suchman, 2008; Suchman, 1995). However, the available methodological approaches, which center on textual data and text analysis, are limited to elucidating how legitimacy emerges in processes of social construction as a "collective perception." As a result, scholars lack a thorough understanding of the perceptual and ideational processes of legitimation at the individual level (Suddaby, 2010a; Tost, 2011). To date, institutional scholars have not elaborated sufficiently on the mechanisms underlying the consolidation of individual legitimacy beliefs into collective beliefs, and have been silent on the question of how collective beliefs and other contextual factors affect the cognition and emotions of individuals. What is missing in extant legitimacy research is a thorough analysis of the micro-

production and micro-implications of texts, in particular with respect to the attitudinal and behavioral antecedents and consequences of judgments about legitimacy (Tost, 2011).

In this paper, I suggest that experiments can fruitfully complement approaches based on text analysis and help researchers overcome "black-box theorizing," which is prevalent in extant legitimacy research. Because in an experimental setting the researcher creates and controls the conditions that are necessary for observation and assigns participants to the experimental manipulation at random, experiments are a powerful means of establishing causal inferences (Highhouse, 2009; Wilson et al., 2010). Although this paper only offers brief sketches of select experimental methods, it is obvious that experiments allow the rigorous and fine-grained analysis of the causal relationships underlying the subjective bestowal of legitimacy. Importantly, as I have argued, experiments cannot be reduced to a mere tool of a positivistic research agenda in organization theory. In other words, experiments do not merely serve a perspective that stresses the existence of an objective and measurable reality in contrast to interpretive epistemology, which postulates that knowledge derives from the subjective interpretations of reality (Burrell & Morgan, 1979). On the contrary, if experiments are carefully designed and interpreted, they *support* a holistic and more sophisticated view that acknowledges the inherently contextual foundation of human cognition and behavior (DiMaggio, 1997). In this sense, experiments have significant potential to strengthen the social-constructionist roots of institutional theory.

Although Meyer and Rowan (1977), as well as other authors, have encouraged the greater use of experimental designs in institutional research (Bitektine, 2011; Boxenbaum & Jonsson, 2008; David & Bitektine, 2009; Green, 2004; Kennedy & Fiss, 2009; Suchman, 1995; Thornton et al., 2012; Voronov & Vince, 2012), implementing such a research agenda poses certain challenges to institutional scholars. A first difficulty stems from a lack of familiarity with experimental methods. As David and Bitektine (2009) have argued, institutional researchers may need training in experimental designs, which may require them to collaborate with colleagues from disciplines such as marketing, psychology, and organizational behavior. Indeed, engaging in more intense dialogue and interdisciplinary collaboration could prove fruitful, in that it would help scholars integrate psychological and sociological perspectives on institutional phenomena (DiMaggio, 1997; DiMaggio & Markus, 2010; Zerubavel, 1997). Second, the application of experiments requires that variables of interest, as well as the causal relationships among these variables, are clearly specified and rendered suitable for standardized operationalization and external control (McKinley, 2007).

This means that institutional theorists need to clarify and refine the currently far too many definitions of constructs and define unambiguously the scope conditions under which the given constructs apply (Suddaby, 2010b). Third, institutional researchers need to overcome old habits and look beyond incentive structures, as well as make the effort to train in and apply experimental methods. In addition, they ought to submit more frequently their work to the leading journals in organization theory. In the words of Bitektine (2009), institutional scholars have to turn from "method specialists," i.e. researchers who are constrained by a narrow set of methods, to "domain specialists," i.e., researchers who apply "more diverse, but sometimes less 'legitimate' (and therefore more 'risky') research methods to address research questions that cannot be explored through 'more legitimate' methods" (Bitektine, 2009: 219).

2.6.2 Contributions

The paper contributes to institutional theory as follows. First, it offers an empirical assessment of the available methods that are used in research on legitimacy but have not been sufficiently explored in the literature. Without doubt, thorough reviews that provide summaries of accumulated knowledge in a particular field are useful in that they counterbalance the increasing preference for developing novel theory instead of validating existing theories (David & Bitektine, 2009; McKinley, 2010). The literature review presented here is an essential addition to the field of research on legitimacy and its insights are particularly timely for the further progress of institutional theory. Second, the selection of experimental methods that I have sketched in this paper complements the methods of text analysis that are used in legitimacy research. As extensively argued above, an experimental research program can help corroborate the assumptions on which much of the research on legitimacy is based, as well as help researchers investigate empirically and develop theoretically the construct of legitimacy. Furthermore, it can enable the integration of psychological and social-constructionist viewpoints within an ideational paradigm that will open the "black box" of institutional processes (Zucker, 1991: 104). Third, I contribute to institutional theory by clarifying that the advancement of theory depends on a self-enforcing and continual cycle between theory development and inductive research aimed at testing and consolidating new theory. Thus, the present study serves as a reminder that theory and methodology are inextricably intertwined and cannot be viewed as separate realms (Ferris et al., 2012; McKinley, 2007; van Maanen et al., 2007). Moreover, they reinforce each other, as "the kinds of research questions that are explored empirically reflect to a large extent the research methods that are most readily available" (David & Bitektine, 2009: 167).

Because of the lack of training in experiments and the pressure to publish often and fast, both of which discourage scholars from using intricate and time-consuming methods, institutional research has been turning away steadily from the micro-level of analysis (Zucker, 1991). As a result, theoretical developments in institutional research have been contingent on the available range of methodological tools, instead of being driven primarily by an interest in particular empirical phenomena. The introduction of a set of largely unattended experimental methods—which this paper has promoted—should encourage and empower institutional scholars to apply experimental methods in order to explore the subjectivist foundation of social judgments. At the same time, the successful integration of experiments in institutional theory requires that scholars specify their constructs and the relationships between those constructs more precisely, particularly on the micro-level of analysis. The recent conceptual contributions of Bitektine (2011) and Tost (2011) on the intra-individual antecedents of judgment formation provide valuable guidance for the development of experimental designs. Overall, the case of legitimacy illustrates the many links and cross-influences between theory and methodology and alerts institutional scholars to be more aware of the ramifications of the tacit methodological conventions in their field.

2.6.3 Limitations and Future Research

Cleary, this paper's implications for further research are limited as my analysis does not extend to other institutional core concepts, such as institutional entrepreneurship (Battilana et al., 2009) or institutional logics (Thornton et al., 2012). It would be worthwhile, therefore, to explore whether the overreliance on text analysis in the legitimacy literature, which I diagnosed here, also applies to institutional theory more generally. A preliminary assessment substantiates such a conjecture. For instance, Battilana and her colleagues have found that research on institutional entrepreneurship is dominated by discourse analysis and stipulate that "the methods used to study institutional entrepreneurship will need to be expanded" (Battilana et al., 2009: 94). Likewise, studies on institutional change and the process of institutionalization and institutional emergence frequently draw on variants of discourse, rhetoric, and narrative analysis (Green, 2004; Green, Li, & Nohria, 2009; Hardy & Maguire, 2010; Hoffman, 1999). Notwithstanding these first indications, future research could explore whether the dominance of text analysis pervades institutional research.

Also, future research might explore how experiments can add to the validation of other core tenets of institutional theory. For instance, it would be fascinating to explore experimentally the question of how variations in the degree of institutionalization on the field

level (e.g. the share of organizations that have adopted a practice) influence organizational decision makers to adopt or not to adopt a certain practice, or to decouple or not to decouple formal adoption from the actual implementation of that practice (Meyer & Rowan, 1977).

Finally, researchers who support or apply the experimental method need to be aware that language "constitutes" reality and that empirical data and scientific constructs come into existence when they are articulated in speech. As Rorty (1989: 6) puts it: "The world does not speak. Only we do. The world can, once we have programmed ourselves with a language, cause us to hold beliefs. But it cannot propose a language for us to speak. Only other human beings can do that." This means that "legitimate" definitions and assessments of the legitimacy construct are subject to linguistic conventions that depend on prior assumptions which cannot be replaced by experience (Janich, 1989). Future explorations of legitimacy and of the methods that suit best research on legitimacy thus require a good amount of "text analysis," i.e. the careful examination of the normative presuppositions and linguistic foundation of the scientific discourse in institutional theory.

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Appendix

Appendix A: Overview of Empirical Articles Subjected to Analysis

Journal	Year	Authors	Title
AMJ	2009	Kennedy & Fiss	Institutionalization, framing, and diffusion: The logic of TQM adoption and implementation decisions among U.S. hospitals
AMJ	2008	Lee & Paruchuri	Entry into emergent and uncertain product markets: The role of associate rhetoric
AMJ	2007	Sanders & Tuschke	The adoption of institutionally contested organizational practices: The emergence of stock option pay in Germany
AMJ	2007	Li, Yang & Yue	Identity, community, and audience: How wholly owned subsidiaries gain legitimacy in China
AMJ	2006	Reay, Golden-Biddle, & Germann	Legitimizing a new role: Small wins and microprocessors of change
AMJ	2004	Mcguire, Hardy & Lawrence	Institutional entrepreneurship in emerging fields: HIV/Aids treatment advocacy in Canada
AMJ	2004	Bansal & Clelland	Talking trash: Legitimacy, impression management, and unsystematic risk in the context of the natural environment
AMJ	2004	Anand & Watson	Tournament rituals in the evolution of fields: The case of the Grammy awards
AMJ	2003	Arthur	Share price reactions to work-family initiatives: An institutional perspective
AMJ	2003	Pollock & Rindova	Media legitimation effects in the market for initial public offerings
AMJ	2002	Greenwood, Hinings, & Suddaby	Theorizing change: The role of professional associations in the transformation of institutionalized fields
AMJ	2002	Sherer & Lee	Institutional change in large law firms: A resource dependency and institutional perspective
AMJ	2002	Lee & Pennings	Mimicry and the market: Adoption of a new organizational form
AMJ	2002	Glynn & Azbug	Institutionalizing identity: Symbolic isomorphism and organizational names
AMJ	2000	Bansal & Kendall	Why companies go green: A model of ecological responsiveness
AMJ	1996	Deephouse	Does isomorphism legitimate?
AMJ	1992	Elsbach & Sutton	Acquiring organizational legitimacy through illegitimate actions: A marriage of institutional and impression management theories
ASQ	2009	Jonsson, Greve, & Fujiwara-Greve	Undeserved loss: The spread of legitimacy loss to innocent organizations in response to reported corporate deviance
ASQ	2007	Zott & Huy	How entrepreneurs use symbolic management to acquire resources
ASQ	2005	Suddaby & Greenwood	Rhetorical strategies of legitimacy
ASQ	2005	Sine, Haveman, & Tolbert	Risky business? Entrepreneurship in the new independent-power sector
ASQ	2000	Human & Provan	Legitimacy building in the evolution of small- firm multilateral networks: A comparative study of success and demise
ASQ	2000	Staw & Epstein	What bandwagons bring: Effects of popular management techniques on corporate performance, reputation, and CEO pay

Journal	Year	Authors	Title
ASQ	2000	Arndt & Bigelow	Presenting structural innovation in an institutional environment: Hospitals' use of impression management
ASQ	1998	Ruef & Scott	A multidimensional model of organizational legitimacy: Hospital survival in changing institutional environments
ASQ	1997	Westphal, Gulati, & Shortell	Customization or conformity? An institutional and network perspective on the content and consequences of TQM adoption
ASQ	1994	Elsbach	Managing organizational legitimacy in the California cattle industry: The construction and effectiveness of verbal accounts
ASQ	1991	Baum & Oliver	Institutional linkages and organizational mortality
ASQ	1986	Ritti & Silver	Early processes of institutionalization: The dramaturgy of exchange in inter-organizational relations
ASQ	1983	Tolbert & Zucker	Institutional sources of change in the formal structure of organizations: The diffusion of civil service reform, 1880 -1935
JMS	2006	Barreto & Baden-Fuller	To conform or to perform? Mimetic behavior, legitimacy-based groups and performance consequences
JMS	2005	Lamertz, Heugens, & Calmet	The configuration of organizational images among firms in the Canadian brewing industry
JMS	2005	Deephouse & Carter	An examination of differences between organizational legitimacy and organizational reputation
Org Science	2010	Vaara & Monin a)	A recursive perspective on discursive legitimation and organizational action in mergers and acquisitions
Org Science	2010	Khaire a)	Young and no money? Never mind: The material impact of social resources on new venture growth
Org Science	2009	Hudson & Okhuysen	Not with a ten-foot pole: Core stigma, stigma transfer, and improbable persistence of men's bathhouses
Org Science	2008	Mantere & Vaara	On the problem of participation in strategy: A critical discursive perspective
Org Science	2007	Sine, David, & Mitsuhashi	From plan to plant: effects of certification on operational start-up in the emergent independent power sector
Org Science	2003	Higgins & Gulati	Getting off to a good start: The effects of upper echelon affiliations on underwriter prestige
Org Science	2002	Creed, Scully, & Austin	Clothes make the person? The tailoring of legitimating accounts and the social construction of identity
Org Science	2002	Foreman & Whetten	Members' identification with multiple-identity organizations
Org Science	1994	Dougherty & Heller	The illegitimacy of successful product innovation in established firms
Org Studies	2009	Goodstein & Velamuri	States, power, legitimacy, and maintaining institutional control: The battle for private sector telecommunication services in Zimbabwe
Org Studies	2009	Heusinkveld & Reijers	Reflections on a reflective Cycle: Building legitimacy in design knowledge development
Org Studies	2008	Archibald	The impact of density dependence, sociopolitical legitimation and competitive intensity on self-help/mutual-aid formation
Org Studies	2008	Symon, Buehring, Johnson, & Cassell	Positioning qualitative research as resistance to the institutionalization of the academic labor process
Org Studies	2007	Golant & Sillince	The constitution of organizational legitimacy: A narrative perspective

Journal	Year	Authors	Title
Org Studies	2007	Özen & Berkman	Cross-national reconstruction of managerial practices: TQM in Turkey
Org Studies	2006	Vaara, Tienari, & Laurila	Pulp and paper fiction: On the discursive legitimation of global industrial restructuring
Org Studies	2005	Durand & McGuire	Legitimating agencies in the ace of selection: The case of AACSB
Org Studies	2003	Robertson, Scarbrough, & Swan	Knowledge creation in professional service firms: Institutional effects
Org Studies	2002	Kitchener	Mobilizing the logic of managerialism in professional fields: The case of academic health centre mergers
Org Studies	2000	Mazza & Alvarez	Haute couture and prêt-à-porter: The popular press and the diffusion of management practices
Org Studies	1998	Barron	Pathways to legitimacy among consumer loan providers in New York City, 1914-1934
Org Studies	1997	Townley	The institutional logic of performance appraisal
Org Studies	1995	Lynn & Rao	Failures of intermediate forms: A study of the Suzuki Zaibatsu
Org Studies	1989	Czarniawska-Joerges	The wonderland of public administration reforms
SMJ	2007	David, Bloom, & Hillman	Investor activism, managerial responsiveness, and corporate social performance
SMJ	2006	Higgins & Gulati	Stacking the deck: The effects of top management backgrounds on investor decisions
SMJ	2001	Lounsbury & Glynn b)	Cultural entrepreneurship: Stories, legitimacy, and the acquisition of resources.
SMJ	1999	Deephouse	To be different, or to be the same? It's a question (and theory) of strategic balance
SMJ	1994	Rao	The social construction of reputation: Certification contests, legitimation, and the survival of organizations in the American automobile industry

Notes: *a) Article has been published outside the 1977-2009 time range. Given that the legitimacy concept is central in the article, I nevertheless include it in the sample. Overall results does not substantively change when compared to the*

b) This article is not firmly grounded in empirical analysis as it draws only sporadically on anecdotes to support theoretical argument. I nevertheless include the article into the analysis, given its prominence. Overall results do not substantively change when compared to the baseline sample.

Appendix B: Overview of AMR Articles Focusing on Legitimacy

Journal	Year	Authors	Title
AMR	2008	Kostova, Roth, & Dacin	Institutional theory in the study of multinational corporations: A critique and new directions
AMR	2008	Vaara & Tienari	A discursive perspective on legitimation strategies in multinational corporations
AMR	2006	Gardberg & Fombrun	Corporate Citizenship: Creating intangible assets across institutional environments
AMR	2006	George, Chattopadhyay, Sitkin, & Barden	Cognitive underpinnings of institutional persistence and change: A framing perspective
AMR	2005	Henisz & Zelner	Legitimacy, interest group pressures, and change in emergent institutions: The case of foreign investors and host country governments
AMR	2005	Rodgrigues, Uhlenbruck, & Eden	Government corruption and the entry strategies of multinationals
AMR	2002	Zimmerman & Zeitz	Beyond survival: Achieving new venture growth by building legitimacy
AMR	1999	Kostova & Zaheer	Organizational legitimacy under conditions of complexity: The case of the multinational enterprise
AMR	1997	Brown	Narcissism, identity, and legitimacy
AMR	1997	Mitchell, Agle, & Wood	Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts
AMR	1995	Suchman	Managing legitimacy: Strategic and institutional approaches
AMR	1994	Aldrich & Fiol	Fools rush in? The institutional context of industry creation
AMR	1987	Neilson & Rao	The strategy-legitimacy nexus: A thick description

Appendix C: Search and Calculation Details for Figure 1

First, I calculated the portion of legitimacy articles in institutional research. I hereby resorted to calculations performed by David and Bitektine (2009) who calculated numbers of papers discussing institutions or institutional theory in citations or abstract. In order to ensure comparability between respective numbers I dropped the *Strategic Management Journal* from my sample as it has not been covered by David and Bitektine. Instead I followed David and Bitektine by adding earlier identified relevant papers published in the Academy of Management Review. Given identical computation bases I was able to produce a percent share of institutional papers that discuss legitimacy. Second, I identified the ratio of legitimacy articles versus all published articles in the six premier journals *Academy of Management Journal*, *Administrative Science Quarterly*, *Journal of Management Studies*, *Organization Science*, *Organization Studies*, and *Strategic Management Journal*. The universe of papers published in these journals was estimated by leaving search fields blank for searches in the respective journal. Through this procedure I obtained total publication numbers but also retrieved non-article content such as book reviews, editorial comments etc. (see David & Bitektine, 2009). Since I kept search procedures constant for all journals and time periods, the overall result on the increasing prevalence of journal articles discussing legitimacy was likely to stay unaffected by my approach, however. Furthermore, the estimation was conservative, as the share of legitimacy articles in the total paper universe would have been higher when non-article content had been omitted.

3 Article 2: Talking the Talk, Moral Entrapment, Creeping Commitment? Exploring Narrative Dynamics in Corporate Responsibility Standardization

Co-authored by Dennis Schoeneborn and Christopher Wickert[2]

Abstract

This paper examines the type and temporal development of language in the process of corporate responsibility (CR) standardization. Previous research on CR standardization has addressed the proliferation and organizational embedding of material practices but neglected the analysis of underlying ideational dynamics. Departing from this practice, we introduce a narrative perspective that illuminates the trajectory a CR standard follows, from being formally adopted to becoming collectively accepted as a valid solution to a problem of societal concern. We compare CR standardization to a process through which a practice dialectically evolves from a set of pre-institutionalized narratives into an institutionalized, i.e. reciprocally justified and taken-for-granted, narrative plot. We argue that this approach helps scholars explore the dynamic interplay between symbolic and material aspects of standardization and understand better the discursive antecedents of coupling processes in organizations. Drawing on the case of the Equator Principles standard in international project finance, we empirically study how narratives create meaning shared by both business firms and their societal observers, thereby exemplifying the analytical merit of a narrative approach to CR standardization.

Keywords

Corporate responsibility, Equator Principles, institutionalization, narratives, standardization

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3.1 Introduction

The last two decades have witnessed the rapid consolidation of a global framework structured around sustainability, responsibility, and accountability pressuring business firms to consider their impact on society and the environment. This development has attracted much attention, and corporate responsibility (CR) is increasingly scrutinized by researchers who emphasize its role in compensating global governance gaps and providing order in weakly regulated or unregulated issues (Gilbert, Rasche & Waddock, 2011). We grasp the various principle-based initiatives, certification, reporting and accountability frameworks, and other formalized modes of industry self- or co-regulation in the realm of human rights, social rights, and environmental protection as *CR standards*. By *CR standardization* we refer to the institutionalization of a standard, i.e. the progressive cognitive validation of a CR-related practice (Berger & Luckmann, 1967). Most institutional studies focus on one of two topics: First, the organizational and institutional contingencies underlying the spatiotemporal *diffusion* of CR standards (Delmas & Montes-Sancho, 2011), as well as what characterizes and motivates adopters (Bansal and Roth, 2000); second, the *entrenchment* of CR standards, i.e. the organizational implementation and perpetuation of a CR practice (Aravind & Christmann, 2011). In this paper, we complement this literature by proposing a third perspective that offers novel insights into the constitution of CR standardization through *narration*. This allows us to examine how different actors tend to converge in their interpretations of diffusion and entrenchment; that is, the conditions under which a socially shared reality of CR standardization is established.

CR standards typically become embedded as guidelines into organizational routines well after they have been endorsed. Considering that compliance with institutional pressures, such as what is considered a socially acceptable activity of businesses, often conflicts with concerns of technical efficiency, subsequent implementation may take place only partially or not at all. Instead, ‘ceremonial’ conformity—merely simulated adherence to societal expectations—is achieved by decoupling surface structures from the organization’s core activities (Meyer & Rowan, 1977). At the same time, however, the organizational implementation of a CR standard is subject to *societal evaluation*, meaning that the approval of standards and standard-adopting organizations is actively conferred by a community of observers (Suchman, 1995). Although technical and administrative standards are also prone to external influence, demands for inspection are particularly strong in the realm of CR: ‘The

visual impact and high externalities of clear-cut forests, open-pit mining, and oil spills generate greater public concern than do the multidivisional form, personnel structures, or civil service reform' (Bansal, 2005: 213–214). Failure to transparently integrate ethical prescriptions can trigger symbolic sanctions such as 'naming and shaming' campaigns led by non-governmental organizations (NGOs), which entail the large-scale condemnation of non-conformity to CR standards (den Hond & de Bakker, 2007). Hence, in view of public scrutiny, decoupling may not be a viable long-term option for adopters of CR-related practices. The differentiation between adopting and implementing a CR practice, and societal pressures to align talk with practice jointly show that CR standards do not automatically become practically relevant but often involve debates on their meaning and appropriateness within specific organizational contexts: CR standardization *starts*, rather than ends, with adoption (see Ansari, Fiss & Zajac, 2010).

As we argue below, extant diffusion and entrenchment accounts of CR standardization do not pay sufficient attention to the underlying ideational-discursive dynamics of post-adoption processes. Filling this void is important, as the analysis of these processes help elucidate how different interpretations of a controversial practice gradually converge through social interaction and eventually become constitutive of organizational and social change. In this paper, we argue that *narratives* that co-evolve with the diffusion and entrenchment of CR standards shed light on whether a formally adopted practice becomes infused with meaning beyond instrumental reason and on how it is gradually accepted, understood and enacted as the 'natural way of doing' things. The term 'narrative' refers to recurrent practices of storytelling that typically include a causal interpretation of a time sequence involving focal actors, events, and motivations, and 'embody a sense of what is right and wrong, appropriate or inappropriate' (Pentland, 1999: 712). Importantly, an understanding of CR standardization centered on the analysis of narratives helps grasp diffusion and entrenchment as discursively constructed phenomena that are subject to narrative reproduction and disruption (Berger & Luckmann, 1967; Phillips, Lawrence & Hardy, 2004). In a narrative perspective, then, standardization as a form of institutionalization does not primarily refer to consistency in talk or conduct but to the permanence and intersubjectivity of meaning.

Drawing on a process study of the *Equator Principles*, a CR standard in the field of international project finance, we empirically investigate CR standardization from a narrative perspective. We address two research questions through qualitative interviews and the analysis of publicly available documents. First, we scrutinize which narratives coexist with

the diffusion and entrenchment of the Equator Principles. Second, we examine how these narratives develop over time. In our empirical analysis we identify two antagonistic narratives: What we label the *success narrative* reflects a set of stories that construe the rapid dissemination of the standard as a valid countermeasure against the detrimental social and environmental impact of project finance. In contrast, the *failure narrative* is largely critical of the success narrative and centers on stories that question the standard's actual relevance to organizational practice. We find that over time the two narratives are replaced by a third set of stories, the *commitment narrative*, which emphasizes the proccessual character of standardization towards an inevitable gradual or 'creeping' commitment of business firms to the cause of sustainability.

The paper's contribution is threefold: First, our empirical study critically addresses one of the central tenets of institutional theory, namely the stability of decoupling (Scott, 2008). We show that companies respond to the societal problematization of prevalent diffusion accounts with rhetorical commitments to organizationally embed a CR-related practice and, indirectly admitting to decoupling, 'talk' themselves into corrective measures. We therefore provide tentative evidence for the assumption that organizational hypocrisy merely amounts to a *transitory* phenomenon. Second, we contribute to the development of a theory of CR standardization by specifying the narrative perspective as a comprehensive conceptual framework for the analysis of the phenomenon, complementing previous perspectives that emphasized material aspects of either diffusion or entrenchment. Third, we extend theoretical research on the NGO–business relationship (Basu & Palazzo, 2008; den Hond & de Bakker, 2007) in that we empirically demonstrate how NGO criticism can influence sensemaking processes in business firms.

3.2 Institutional Theories of CR Standardization

In an effort to delineate the rich yet heterogeneous collection of institutional theories of CR standardization, we differentiate between the *diffusion*, *entrenchment*, and *narration* perspectives. Whereas the diffusion perspective examines which standards 'flow' and why, and entrenchment studies are interested in which standards 'stick' and why (Colyvas & Jonsson, 2011), the narration perspective explores how standards become established through discursive processes, i.e. are ultimately 'talked into existence'.

3.2.1 Standardization-as-Diffusion

The *standardization-as-diffusion* perspective, as we term it, considers which standards diffuse or flow across space and time and why—the 'breadth' of standardization, so to speak. Diffusion studies tend to emphasize the 'contagious' spread of invariant practices and regard organizations as passively exposed to institutional pressures (Tempel & Walgenbach, 2007). For instance, it has been suggested that standardized models and blueprints are informed by the rational and universalist character of world culture that diffuse to 'the various units of the field' (Drori, 2008: 466). In that view, CR standards resemble globally valid conceptions of virtuous behavior and morality. Civil society and NGOs in particular are portrayed as cultural *carriers* that disseminate a general model of 'universalism, individualism, rational voluntaristic authority, progress, and world citizenship' (Boli & Thomas, 1999: 45).

Besides examining the motivation and attributes of adopters (Bansal & Roth, 2000), the diffusion perspective emphasizes that CR standardization is characterized by local differences in institutional frameworks (Delmas & Montes-Sancho, 2011; Matten & Moon, 2008). It points out, for instance, that differences in organizational features (Christmann, 2004; Delmas & Toffel, 2007) and inter-organizational linkages (Prakash & Potoski, 2006) influence the propensity for adoption. Hence, the standardization-as-diffusion perspective does not inevitably assume isomorphic convergence towards structural sameness but applies a 'contingency theory of institutionalism' (King & Toffel, 2009: 104) where 'heterogeneity refers to internal and external sources of contagion and [the] subjects' degree of susceptibility and infectiousness' (Colyvas & Jonsson, 2011: 44). The diffusion account thus contributes to our understanding of CR standardization in that it allows us to view observed variance in adoption and diffusion patterns from a macro-perspective.

Diffusion studies are limited, however, in that they often equate the spatiotemporal *ubiquity* of standards with their increasing institutionalization, without investigating the character of adoption or examining the social processes through which diffusion is causally linked to institutionalization (see Colyvas & Jonsson, 2011; Green, 2004). For instance, Delmas and Montes-Sancho (2011: 106) argue that objectification, that is, 'the development of some degree of social consensus among organizational decision makers concerning the value of a practice, and the increasing adoption by organizations on the basis of that consensus', signals the increasing institutionalization of ISO 14001, an environmental management standard. However, in their multivariate analysis, the authors estimate the environmental contingencies of diffusion without measuring the degree of consensus or

capturing its social construction. Thus, given the study's reliance on proxies that are rather distant from the reciprocal typification of meaning systems and collective beliefs that are central to a phenomenological understanding of institutions (Berger & Luckmann, 1967), the authors' claim about the increasing institutionalization of the ISO 14001 standard remains tentative at best.

More generally, institutional studies that examine diffusion patterns of organizational practices often *assume* that these result from the process of institutionalization but do not consider alternative explanations for—supposedly institutional—outcomes (see Schneiberg & Clemens, 2006). The ambiguous link between ubiquity and institutionalization has been perpetuated by the prevalent methodology, as in quantitative studies the 'adoption of a practice is typically coded as a binary fact […] offering no room for nuanced analyses of the microelements of diffusion that fall between the "adoption" and "non-adoption" such as partial adoption, adoption and subsequent rejection, or adoption with translation' (Suddaby & Greenwood, 2009: 179–180). As a consequence, and notwithstanding its merits, standardization-as-diffusion research is characterized by 'black box' thinking, where variation in the implementation and field-level integration of CR standards remains empirically and theoretically undetected.

3.2.2 Standardization-as-Entrenchment

Another approach, which we term *standardization-as-entrenchment* perspective, examines the 'stickiness' or 'depth' of a CR standard after it has been adopted; that is, the extent to which it is organizationally implemented and stabilized at the institutional field level. The concept of entrenchment was developed by Zeitz and colleagues, who distinguish between the initial adoption of a practice and its eventual 'entrenchment'. They define the latter as the 'embedding of practices such that they are likely to endure and resist pressure for change' (Zeitz, Mittal & McAulay, 1999: 741). In contrast to standardization-as-diffusion, the entrenchment perspective does not view organizational actors as passive pawns of isomorphic pressures but acknowledges that they have some leeway in adjusting adopted practices (Ansari et al., 2010).

The notion of entrenchment clarifies that patterns of widespread diffusion cannot be equated with institutionalization (as implied by the diffusion perspective) but potentially hint at the rise of short-lived 'fads and fashions'; that is, transitory institutions that do not necessarily develop an enduring foundation (Abrahamson, 1991; Brunsson, 2000). The entrenchment view thus accommodates the finding that, in order to enhance legitimacy,

organizations adopt standardized formal structures but vary in the degree of actually embedding them in organizational activities. Hence, increasing rates of adoption may reveal more about growing uniformity in symbolic gestures than about the standardization of practices (Meyer & Rowan, 1977; Tempel & Walgenbach, 2007).

Proponents of the entrenchment perspective regard *decoupling*, that is, the organizational misalignment between surface structures and actual activities, as particularly relevant to the topic of CR standardization. In their view, low-entry barriers for adopting a CR standard and lax enforcement mechanisms and reporting requirements after adoption encourage shirking (King & Lenox, 2000). Consequently, researchers have started paying attention to whether organizations actually implement CR standards (Aravind & Christmann, 2011; Boiral, 2007) and examining the various antecedents and consequences of decoupling (Behnam & MacLean, 2011; Christmann & Taylor, 2006). Such research has found that CR standardization initiatives are often implemented superficially to produce a 'green' and socially responsible image that does not affect organizational core activities.

The entrenchment perspective provides important insights into whether standardized prescriptions become ingrained in organizational practice, and if so, why. Nevertheless, the concept of standardization as 'persistence', i.e. the idea that a ubiquitous standard becomes institutionalized if it proves enduring, and 'depth', i.e. the idea that a standard becomes institutionalized if it has 'real impact', conflates the material outcomes of standardization with the ideational dynamics underlying its symbolic construction. With regard to *persistence*, entrenchment studies suggest that what distinguishes a faddish from a fully institutionalized practice is the resilience of the latter (Colyvas & Jonsson, 2011; Zeitz et al., 1999). However, persistence is a relative term that cannot be specified *a priori*. Arguing that a standard can be considered institutionalized when 'it becomes a stabilized mode of action' (Brunsson, 2000: 151), without elaborating on the underlying social mechanism, relies on *ad hoc* reasoning on why and how stability has been achieved. Clearly, with such circular explanations one cannot distinguish between fads and institutions and it is only *in retrospect* that entrenchment studies account for the process that may have led to either.

Likewise, with regard to *depth*, distinguishing fads from institutions on the basis of the degree of implementation and the 'effectiveness' of a standard (Aravind & Christmann, 2011; King & Lenox, 2000) is not fully satisfactory, because such typically static and structural assessments overlook the possibility that the extent of decoupling varies over time and may merely constitute a *transitory* phenomenon: The 'amount of time that an organization is able

to “talk the talk” but not “walk the walk” may be limited not only because outsiders will enforce full compliance, but also because insiders will experience an identity transformation’ (Fiss & Zajac, 2006: 1188). Indeed, symbolic structures may ‘have a life on their own’ (Scott, 2008: 171) and through ceremonial use they may materialize into organizational realities (Tilcsik, 2010). Yet, the entrenchment perspective does not account for the various coupling processes through which formal prescriptions become infused with novel meaning and an action-generating rationality. The image that emerges is therefore incomplete, being based on a binary or ‘unidimensional’ conception of decoupled vs. tightly decoupled organizations in one point of time (Orton & Weick, 1990).

3.2.3 Standardization-as-Narration

Both the diffusion and the entrenchment perspective are heuristically valuable, as they reflect important aspects of the social construction of standardization. We argue, however, that both views remain theoretically underdeveloped in that they overlook the role of subjective interpretations in the process of standardization. In particular, the dynamic interplay between material aspects of standardization, expressed in organizational activities, and the symbolic dimension of utterances that render both the diffusion and entrenchment of a practice meaningful and legitimate in the first place, are not adequately addressed. As a result, the analysis of *post-adoption* dynamics in standardization has been neglected, and we know relatively little about the discursive-ideational processes that influence the persistence and depth of a CR-related practice.

The *standardization-as-narration* perspective allows us to complement the objectivist stance of the diffusion and entrenchment perspectives. Its rationale is grounded in a social-constructionist epistemology, which assumes that ‘language is not literal (a means of representing reality) but creative in giving form to reality’ (Cunliffe, Luhman & Boje, 2004: 264). In this view, narratives not only reflect but also influence attitudinal and behavioral dispositions in such a way that certain choices, such as the adoption or implementation of a CR standard, become meaningful and are enacted, whereas others are not (Green, 2004; Pentland, 1999). In other words, a narrative approach considers the possibility that the use of language does not merely reflect or transmit the material aspects of CR standards but that language is *constitutive* of social reality (Christensen, Morsing & Thyssen, 2011; see also Cooren, Kuhn, Cornelissen & Clark, 2011). It follows that the standardization-as-narration perspective assigns ontological primacy to language; how ‘stories’ of ‘breadth vs. depth’ or ‘flowing vs. sticking’ are ‘told’ is of particular significance.

By explicitly addressing the type and tenor of language that co-evolves with the diffusion and entrenchment of a practice, standardization-as-narration builds upon and extends a stream of research that explores the type and role of rhetoric associated with the diffusion of management practices (Abrahamson & Fairchild, 1999; Green, 2004). For instance, Abrahamson and Fairchild suggest that there is a 'rhetorical bandwagon pressure' to 'adopt or reject a management technique, which occurs because managers *read* discourse telling them that many organizations are adopting (or rejecting) this technique' (Abrahamson & Fairchild, 1999: 732, emphasis in original). Green and his colleagues likewise theorize the relationship between rhetoric and adoption numbers and argue that 'an increase in diffusion combined with a decrease in justifications approximates an increase in the level of taken-for-grantedness' of the diffusing practice (Green, 2004: 656). Their empirical work suggests that a declining complexity in argument structure underlying the justification of a practice indicates the gradual institutionalization of that practice (Green, Nohria & Li, 2009). Notwithstanding their differences, these communication-centered studies agree that diffusing practices are not exclusively material, i.e. reflecting actual work practices and structures, but also represent sets of meanings subject to contestation and modification. Although undoubtedly enhancing our understanding of standardization, this research primarily addresses the communicative constitution of diffusion and perceives language as monological, thus disregarding its dialogical character. To our knowledge, no study in institutional theory has examined how the communicative interaction that revolves around a decision of symbolic adoption affects utterances with respect to the material entrenchment of a CR standard.

The standardization-as-narration perspective comes to close this gap. Essentially, a narrative approach grasps the process of standardization as the stabilization of a dynamically developing set of narrative elements that can be related but not fully equated with material aspects of the ubiquity, depth, and persistence of a CR-related practice. We follow the phenomenological tradition of Berger and Luckmann (1967) and conceptualize standardization as the reciprocal typification of habitualized discourse that objectifies joint categories for actors, actions, and motivations. By 'habitualized discourse' we mean the development and recurrent application of a narrative or a set of narratives by an actor or group of actors in response to a problem of societal concern. In turn, 'reciprocal typification' denotes the narrative stabilization of collective beliefs regarding the response's appropriateness to solve the problem in question. In other words, reciprocal typification implies the consolidation of a consensual narrative or set of narratives on what ought to be

done, by whom, and for which purpose. In this view, CR standardization resembles the process through which a practice dialectically evolves from a set of pre-institutionalized—as yet unintelligible and normatively contested—narratives into an institutionalized narrative plot; that is, a narrative that generates greater *actual* compliance with a CR standard and no longer needs to be justified or criticized by either organizations or their critics. Table 2 provides an overview of the diffusion, entrenchment, and narration perspectives.

Table 2: Comparison of the Three Approaches to CR Standardization

	Diffusion	Entrenchment	Narration
Understanding of institutionalization	ubiquity of a practice	implementation and persistence of a practice	stabilization of narratives about diffusion and entrenchment
Main focus	breadth	depth	interplay of breadth and depth
Research interest	to explain contingencies of adoption and adoption motivations	to explain contingencies of implementation	to understand how diffusion and entrenchment are infused with meaning and legitimacy
Assumptions about actors	mostly passive, lacking leeway in the degree and modality of practice realization	mostly active, possessing some leeway in the degree and modality of practice realization	discursively constructing a practice as useful and meaningful
Epistemological stance	objectivist	objectivist	social-constructionist, subjectivist

The advantage of conceptualizing CR standardization as narration is twofold. First, examining the coherence of socially shared meanings and their stabilization through narration offers a better understanding of variance in the persistence of a CR-related practice. That is, unlike earlier studies (Abrahamson & Fairchild, 1999; Green, 2004), a narrative approach acknowledges the dialectical and discursively negotiated nature of CR (Christensen et al., 2011; Wehmeier & Schultz, 2011) and analyzes the development of contrasting viewpoints and dialogues between business firms, NGOs, and other actors on what kind of CR practice should be adopted or implemented, and whether the practice merits support and normative approval (Gilbert & Rasche, 2007; Scherer & Palazzo, 2007). Narratives which point out that a CR practice has only been partially implemented or instrumentally adopted are likely to increase suspicion and thus diminish a standard's moral desirability and taken-for-grantedness. In such a situation, the persistence of a practice, even if diffused to a majority or the totality of potential adopters, is threatened. Unless measures are taken to re-establish

legitimacy, the CR practice risks losing stability and may entirely disappear (Abrahamson, 1991). It follows that the standardization-as-narration perspective explores how the acquisition or loss of legitimacy through language generates a 'second order of meaning' concerning the validity status of standardized practices (Berger & Luckmann, 1967: 93).

Second, standardization as narration points out that organizational members are confronted, engage, and potentially identify with novel narratives and worldviews in interactions with what Berger and Luckmann (1967) termed 'significant others', i.e. civil society at large in the case of CR standardization. Narratives that contest an organization's professed adherence to a CR standard can put subtle yet effective pressure on that organization to adopt gradually the principles of its critics. External evaluations of the organization that are inconsistent with the self-perceptions of organizational members push the latter to rhetorically address these inconsistencies. In turn, 'aspirational talk' (Christensen et al., 2011), i.e. the rhetorical commitment to reduce the gap between actual and projected reality, eventually leads to corrective behavior that adjusts self-perceptions to the interpretations of external observers (Dutton & Dukerich, 1991). That is, in order to avoid what is referred to as 'cognitive dissonance' and 'emotional dissonance' in psychology, organizational members start internalizing and acting upon a new interpretation of CR, thereby materializing 'the attitudes first taken by significant others toward it' (Berger & Luckmann, 1967: 132). Thus, although organizations require a period of 'incubation' until formally adopted practices materialize in activity (Røvik, 2011), in a situation of decoupling, because of the contested validity of narratives ('narrative contestation' hereafter) CR may take deeper roots within organizations, i.e. lead to the coupling of formal structure and activities (Christensen et al., 2011; however, see Behnam & MacLean, 2011).

The narrative construction of a novel, socially shared reality of standardization is often supported by material developments at the organizational level. For instance, creating CR-related job functions, offices, and policies (Scott, 2008), increasing training (Røvik, 2011; Zeitz et al., 1999), as well as demographic changes in the organizational populace (Suchman, 1995; Tilcsik, 2010) redefine meanings and incentives of appropriate behavior and have a lasting effect on organizational discourse. Furthermore, a narrative underpinning is unlikely to represent a *sufficient* condition for the institutionalization of a CR-related practice. Material contingencies, such as technical or regulatory requirements, may pose insurmountable obstacles to both the adoption and organizational embedding of a standard. Likewise, material aspects of standardization affect the reification of meaning, as can be seen, for instance, in the

stabilizing impact of technologies and work routines on organizational communication (Yates & Orlikowski, 1992). It is therefore necessary to be sensitive to the fact that the 'material' and the 'symbolic' coexist and are inherently intertwined (Latour, 2005).

3.3 Data and Methodology

In order to identify the type and evolution of narratives in CR standardization we pursued a two-tiered analysis. First, we aggregated prevalent narrative patterns that we detected in a series of interviews. Drawing on the interview findings, we then quantitatively identified narratives and 'surface stories' in public documents. Second, we tracked the lifecycle of identified narrative patterns. This allowed us to build a longitudinal description of narratives, i.e. to elucidate 'narrative dynamics'.

3.3.1 Case and Background of the Equator Principles Standard

The Equator Principles (EPs or EP standard hereafter) represent a voluntary initiative of financial institutions that encompasses a set of process- and performance-based criteria for determining, assessing, and managing social and environmental risk in international project finance. The EPs are designed around a framework of ten broad principles which ensure that financed projects across all industry sectors are developed in a manner that is socially and environmentally responsible. 'International project finance' refers to the cross-national investments of financial institutions in large public infrastructure and development projects like the construction of power plants, river dams, or mines. At its peak in 2008, this global market had a volume of US$110 bn but declined in 2009 to US$67 bn due to unfavorable market conditions for lending during the financial crisis (data provided by *Infrastructure Journal*). Given that large projects are often jointly financed by one underwriting bank that syndicates the loan to other financial institutions, the sector is characterized by a high degree of interdependencies among a few major market players. Although for most banks the business field is small, it offers high-margin opportunities that result from the premium paid for the risks involved in the project finance instrument. At the same time, individual projects are often very large-scale and significantly affect the natural environment and local communities (Schepers, 2011; Wright & Rwabizambuga, 2006). As the adverse ecological and social impact of large-scale development projects frequently attracts public criticism, NGO campaigning may induce the withdrawal of government support, which can lead to the

complete failure of a project while providing NGOs with the leverage they need in order to influence banks' lending decisions (Schaper, 2007).

Indeed, in the early 2000s, the 'birth' of the EP standard was initiated by several NGOs actively targeting four major commercial banks whose project finance activities they considered socially unacceptable: ABN AMRO, Barclays, Citigroup, and WestLB. For instance, the American Rainforest Action Network (RAN) started highly visible campaigns on fossil-fuel and logging projects financed by Citigroup, while Friends of the Earth (FoE) attacked ABN AMRO and other Dutch banks for their financial support of palm oil production in Indonesia (O'Sullivan & O'Dwyer, 2009; Schaper, 2007). In 2002, a NGO coalition comprising RAN, FoE, the Berne Declaration and other players drafted the 'Collevecchio Declaration', a civil society statement that coordinated NGO action and outlined a set of demands towards the financial sector. In response, the four banks, supported by six additional financial institutions, launched the EPs in June 2003. In 2004, the NGOs behind the Collevecchio Declaration founded BankTrack, a global network of 36 NGOs that monitors the project finance operations of banks. Since then, NGOs have been coordinating their activities under the umbrella of the BankTrack network.

Given the dominant market position of the first ten EP adopters, the involvement of international development institutions, and the sector's mutual dependencies, other financial institutions followed suit in adopting the EPs. Since 2003, eight to ten institutions have joined the EP group each year. Given the strong reputational pressure in their institutional environments, banks headquartered in Western Europe and North America adopted the EP standard early (Wright & Rwabizambuga, 2006), whereas recently EP membership has begun to show greater geographical diversification. As of September 2011, we count a total of 70 adopters (hereafter referred to as 'EP banks') from around the world. Since 2006, about 80 percent of cross-country project financing volume is lent in accordance with the EP standard (data provided by *Infrastructure Journal*). Notwithstanding the conclusion that 'no major project is likely to be financed today without the application of the Equator Principles' (UNCTAD, 2008: 115), BankTrack and other critics argue that a persistent lack of compliance at the organizational and project site levels, as well as weak governance structures at the institutional level, undermine the legitimacy and effectiveness of the EPs (O'Sullivan & O'Dwyer, 2009; Schepers, 2011). In sum, although the EPs have proliferated rapidly since their introduction, societal observers perceive the efforts of banks to implement them as deficient.

3.3.2 Data Collection

The first stage of data gathering involved a series of qualitative face-to-face and telephone interviews, which we conducted between March 2009 and August 2011 with interview partners from Europe, Asia, and the Americas. These included bank representatives (of both adopters and non-adopters of the EP standard), NGOs active in monitoring the project-financing sector (e.g. members of the NGO network BankTrack), project-executing firms, and further experts in the field (e.g. journalists, consultants, and academics). We interviewed 26 individuals once and 8 individuals twice, conducting a total of 42 interviews. All interviews were based on a field manual structured around two sets of questions that allowed us to stimulate and re-stimulate narration: First, we asked interviewees to give us their view of the EP standard's diffusion among banks in the field of project finance. Second, we asked whether they thought that the EP standard was implemented in general, and if so, what impact it had on adopting organizations. The interviews lasted 30–60 minutes and, provided that the interviewee consented, they were tape-recorded and transcribed.

In order to longitudinally complement our interview data, we then collected textual data from publicly available documents published between January 2003 and December 2010. Running a wildcard search for the keywords 'EPs' and 'Equator Principles' in the full text, we selected documents from (a) the EP standard's website, such as relevant news articles and press-releases, (b) the websites of banks that had adopted the EPs, such as CR reports and sector policies, (c) the Lexis-Nexis database, such as articles from the general press, (d) the BankTrack website, such as press releases and NGO publications, (e) practitioner-oriented sustainability journals, such as *Ethical Corporation*, and (f) trade journals, such as *Environmental Finance* and *Project Finance International*. We furthermore executed an Internet search in order to identify additional documents, such as blog entries and presentations on the EPs. We included documents where the EPs constituted the main or a major topic of coverage, but excluded all documents that referred to the EPs only casually. Overall, we gathered more than 750 relevant documents amounting to about 720,000 words.

3.3.3 Data Analysis

We began with a systematic narrative analysis of our interview transcripts and notes (Cunliffe et al., 2004; Hardy & Maguire, 2010). This enabled us to identify recurrent utterances and narrative patterns. Applying a process of open coding, we iteratively validated emerging structures. We organized the identified story elements in a two-by-two matrix that contrasted

breadth vs. depth aspects, and negative vs. positive evaluations of EP standardization. This procedure yielded a total of 39 story elements. Based on this, we generated a coding scheme for analyzing the document data. The codebook also included open coding categories that allowed us to include new forms of storytelling not visible in the interview data.

We then used the qualitative text analysis software *QDA Miner* to code, process, and analyze the collected documents. We assigned values to each document for the categorical variables *authorship* (containing the values 'financial institution', 'NGO', 'trade journal', or 'general media'), *tenor* (which addresses the character of evaluation and contains the values 'negative', 'positive', 'balanced', or 'neutral'), and *focus* (indicating whether the document placed more, less, or equal emphasis on diffusion or entrenchment). We furthermore assigned values for the exact publication date, which we later aggregated into a year variable.

Two of the authors coded relevant text segments within each document and regularly discussed any ambiguities of the coding scheme to maximize consistency in coding. Overall, we coded 3,921 story elements. Once coding had been completed, we used a random subset of 150 documents to gauge coder reliability at the variable level. Inter-rater reliability for the tenor and focus variables amounted to 0.813 and 0.853 respectively. Drawing upon quantitative aggregations of code co-occurrences and code sequences within single documents, we then identified prevalent clusters and sequential patterns of story elements across documents. This allowed us to consolidate the codes into a smaller set of *surface stories*.

In the context of our study, the term 'surface story' refers to fragmented yet recurring narrative patterns that create and stabilize meaning for the EP standard. Surface stories coalesce into narratives which are generally characterized by (a) a sequence in time, (b) an endpoint of moral circumstance, and (c) the construal of focal actors in search of a cause (Pentland, 1999; Zilber, 2009). Surface stories, in contrast, do not necessarily need to fulfill these three criteria in order to contribute to the construction of meaning. Given that field actors are often acquainted with a narrative, a single surface story is sufficient to trigger the causal chain of an entire narrative sequence. Hence, we do not use 'narrative' and 'story' synonymously but regard the latter concept as constitutive of the former (Gabriel, 2008).

To substantiate the description of narratives we retrieved the original text segments, coded on the basis of surface stories, and revisited our interview data to examine critically our interpretation of narrative structures. We then regrouped codes according to identified surface stories and narratives. Finally, in order to develop a better sense for the data's longitudinal

character, we produced simple frequency counts of documents, e.g. by general tenor or assigned codes per year. We then used correspondence analysis to convert cross-tabulations of surface stories and years into numerical statistics and graphical displays. Correspondence analysis is a descriptive and explanatory data technique that reveals relationships within large contingency tables (Clausen, 1998; Greenacre & Blasius, 1994). Correspondence analysis proved particularly valuable for tracking the development of narratives and surface stories over time and inferring shifting meanings in the development and promulgation of the EP standard (see Meyer & Hoellerer, 2010).

3.4 Findings

We begin this section by identifying prevalent narratives and types of constitutive surface stories, then go on to describe the development of narratives and surface stories over time. These findings are based on both the interview and document data.

3.4.1 Narratives and Surface Stories

Examining our data, we discern three narratives: the success narrative, the failure narrative, and the commitment narrative. The *success narrative* construes the EPs as a rational means of preventing project finance activities from causing socio-environmental harm. It is mostly told by representatives of banks that have adopted the EPs and can be summarized as follows:

Success Narrative

The EP standard proliferated quickly and widely within the field of international project finance. This success has been driven by the increased reputational leverage of advocacy campaigns that turned measures of environmental protection into a pillar of the bank's risk management strategy. Having adopted the EPs, banks are committed to extending best practices to other financial institutions and to helping create a truly global standard.

In both the interviews and document data, the success narrative becomes visible through three surface stories. These do not necessarily contain a temporal chain *themselves* but create meaning for the sequence and latent structure of narratives at the institutional field level (Pentland, 1999; Zilber, 2009). Appendix 1 offers an overview of illustrative excerpts of such surface stories and corresponding story elements.

The success narrative begins with the *adoption* story, which draws on the notion of increasing breadth, i.e. spatiotemporal diffusion, and highlights general success, ubiquity and growth, the amount of EP-compliant project volume, and the prestige and/or importance of early or current adopters. For instance, the adoption story emphasizes the trend of increasing ubiquity through claims that the EPs 'have turned into the *de facto* standard in international project finance' and that 'almost all big names in project finance have signed up' (document statements by EP banks). It also highlights the standard's endorsement by leading market players and well-respected authorities such as the International Finance Corporation, which provides 'linkage legitimacy' (Bitektine, 2011: 156). In the analyzed documents, elaborations of the EPs' essence tend to be located close to statements on adoption (e.g. 'what are the EPs') and purpose (e.g. 'what they are good for'), which increases the standard's plausibility and intelligibility (Suchman, 1995). In sum, the adoption story tells that 'normal' banks have adopted the EPs because they represent a 'natural' and appropriate way of dealing with state-of-the-art project finance. It also suggests that the standard has achieved or will achieve a taken-for-granted status.

The *business case* story represents the success narrative's middle part and explains *why* the EP standard has proliferated so quickly, providing a causal account of the beneficial consequences of adoption. It rationalizes that, because project-financing banks generate their return on investments almost entirely from the cash-flow of completed projects, NGO campaigning can potentially lead to project closure and loss of investment. The reputational risks associated with project finance led banks to develop sound environmental practices and integrate them into existing risk-management procedures: 'Basically, the development of the EPs is a response to reputational risk. Since reputational risk is quite high in large projects, the EPs evolved and diffused rapidly' (document statement by NGO representative). Applying the EPs is construed as beneficial to both financial institutions and society at large, creating a win-win situation for all parties involved: 'Aside from the "feel good" [factor], it makes sound financial sense' (document statement by EP bank representative). Or, as one EP bank representative puts it (document statement):

> Our clients recognize that they can achieve their aims most effectively if they apply the [EP]. And because [we play] a leading role in championing them, existing and potential customers see our expertise in this area as a point of advantage. The result is a triple whammy. Our customers win. We win. And, very importantly, the societies where we operate win.

At the same time, the business case story views the EPs' proliferation from an instrumentalist perspective, i.e. as the result of reputational threats and 'self-interested calculations', rather than from a moral standpoint, i.e. as 'the right thing to do' (Suchman, 1995: 578). Overall, given that managers and employees often find it hard to immediately internalize the normative case for sustainability (Humphreys & Brown, 2008), the business case rationale helps enhance the pragmatic legitimacy of the EP standard within banks (Suchman, 1995).

Finally, the success narrative's ending is substantiated by the *outreach* story. This extends the adoption and business case stories in the form of a self-mandated mission towards a 'desired end point or ultimate goal' (Hardy & Maguire, 2010: 1371). It emphasizes that the long-term success of the EPs depends on getting everyone to 'join the club', i.e. on their universal dissemination and active, rather than passive, adoption. Otherwise, the outreach story reasons, money borrowers may stick to non-adopters to benefit from less strict requirements for lending: 'My only wish is that all banks, including banks in large emerging countries, apply the same rules to avoid competitive distortion' (document statement by EP bank representative). The need for fair competition and abidance by the same set of standards is often described by the metaphor of the 'level playing field'. In a geographical context, this refers to extending the EPs globally, in particular to China and India. Although financial institutions that adopt the EPs aim primarily to prevent market rivalries, the outreach story tends to depict them as reputable protagonists in 'search of a quest', characterized by vigor and enlightenment. Thus, in contrast to the preceding two surface stories, which emphasized the taken-for-grantedness, comprehensibility, and instrumental value of adopting the EPs, the outreach story stresses the moral validity, desirability and 'necessity' of the EPs' global dissemination.

The success narrative is fully developed in that it contains a clear and coherent tri-partite sequence of surface stories (*adoption*, *business case*, and *outreach*) that facilitate causal attributions about events, focal actors, and motivations. It conceives the EPs as a major achievement and a valid means of mitigating the detrimental impact of project finance activities. In contrast, the *failure narrative* can be seen as a challenge to the lore of the success narrative. It argues that applying the EPs does not counteract adequately the harmful ramifications of project finance. In our interviews, accounts of failure were given mostly by representatives of NGOs and occasionally by bank officials, especially when the latter spoke about the unsatisfactory compliance of peers. In documents, the failure narrative was solely told by NGOs.

Failure Narrative

The EPs proliferated because of low requirements for adoption. Sadly, they have not effected significant changes in banking practice. Given weak implementation and lacking disclosure and enforcement mechanisms, we regard the status quo in project finance as unsatisfactory and highly worrisome. Banks need to put into action their commitment to the EPs so that these truly make a difference.

Again, the narrative's latent structure becomes visible through three surface stories. Its beginning is represented by the *easy-to-sign* story, which, like the adoption and business-case stories, acknowledges the wide dissemination of the EPs and their usefulness for financial institutions as a reputation management tool. However, the low entry barriers for adopting the standard are central to this narrative's critical interpretation of the EPs' proliferation. Lamentably, as NGOs observe, 'merely issuing a press release' (interview with NGO representative) is sufficient to establish an organization's status as a member of the EP group, so banks take advantage of the EPs to enhance their reputation without following their prescriptions, thus pushing banking practice to the 'lowest common denominator'.

The story's 'conspiracy part' lists various 'exit-door strategies' that banks use to circumvent the application of EPs even after having signed the standard; for instance, they may classify a project as lower risk or invent risk categories exempt from compliance, or they may substitute project finance through a non-project finance structure such as corporate finance, export finance or proprietary investment: 'Banks have introduced risk classification sub-categories like B+, B, or B- which prevents them from having to classify a project as representing the toughest risk category A' (consultant in interview) and 'banks and project-executing firms try to restructure their project financing activities so that the EP criteria do not apply anymore. […] This is done, for instance, by re-classifying them as "corporate finance"' (interview with EP bank representative). Note that comments on these strategies emerged mostly in confidential interviews; closer inquiry into the nature and use of these 'loopholes' produced vague statements. In sum, the easy-to-sign rationale emphasizes that the EPs' apparent ubiquity must be examined in the context of easy and nominal adoption. It aims at discrediting the EPs' 'success story' as delusive, meaningless, and morally wrong, in particular from the viewpoint of communities affected by project finance activities.

In both interviews and documents, the *greenwash* story typically follows the easy-to-sign story, forming the middle part of the failure narrative. The term 'greenwash' refers to the active dissemination of misleading information to present an environmentally responsible public image. The greenwash story basically reports how financial institutions that have adopted the EPs sidestep their application. Furthermore, it cynically devaluates deficient implementation and accountability, often metaphorically referring to the EP standard as 'elaborate fig leaf', 'window-dressing', or 'just good PR' (statements repeatedly made in both documents and interviews). The greenwash story thus indicates that applying the EPs is hypo-critical and that adopters do not live up to their claims. This is acknowledged even in an interview with an EP bank representative: 'The EPs indeed are, in many cases, greenwashing. I've met an EP bank that was surprised to hear that it needed to train its project finance people about the environment'. The greenwash story argues that adoption does not fundamentally alter established business practices, as compliance is often handled by insulated corporate communication or CR departments, or is outsourced to third parties such as law firms, turning the EPs into 'basically just one more consulting report at the end of the day' (interview statement by EP bank representative). Even if banks fully complied with the prescriptions, the EPs' impact at the project sites would still have to be tested: 'Incredibly, no one knows whether any environmental or social outcomes were improved by [an EP bank's] decisions to finance the 20 projects or to not finance the other 66 projects' (document statement by NGO). Evidently, the greenwash story is inherently value-laden and its various narrative elements reduce the moral legitimacy of project finance. The message is clear: Applying the EPs half-heartedly does not solve but *perpetuates* the societal-environmental problems caused by project-financing banks.

The failure narrative concludes with the *walk-the-talk* story, which urges banks to keep their promise to implement signed prescriptions and to be accountable for and transparent about the degree to which they actually apply the EPs both within organizations and at the project sites: 'If the banks involved were serious about their environmental performance they would put their money where their mouth is and fully implement the [EPs]' (document statement by NGO). At the same time, walk-the-talk acknowledges that there is significant heterogeneity in compliance with the EPs. Banks in 'the coalition of the willing' are distinguished from under-performing laggards, who are 'named and shamed' (interview statements by NGO representative). Thus, the failure narrative's endpoint not only prompts

banks to abandon greenwashing but differentiates between 'good' and 'bad' banks. As an NGO representative puts it (document statement), there are three kinds of 'adopters':

> Banks that have taken [the EPs] to heart, […]; banks that are adopting and working through the implementation, […]; and the free riders […] – unfortunately many of the signatories fall into the third category.

Furthermore, in contrast to the easy-to-sign and greenwash accounts, the tone of the walk-the-talk story is inspirational and more solution-oriented, as it specifies a clear pathway for prospective improvement. To conclude, the failure narrative essentially progresses from a critique to a suggested remedy, stressing that improving the EPs' 'breadth' must be followed by improvements in their 'depth' to adequately mitigate the harmful effects of project finance.

Finally, we detect a third storytelling pattern, which we term *commitment* narrative. This narrative is told by banks that have adopted the EPs but differs remarkably from the success narrative in that it focuses on the depth, rather than the breadth, of EP standardization. The commitment narrative consists of three surface stories which emphasize depth-related aspects of the EPs' promulgation. The narrative starts with the familiar *walk-the-talk* account of the failure narrative, except that it is spoken by financial institutions. Nevertheless, the banks' variant of walk-the-talk is strikingly similar to that of NGOs in that it refers to issues such as implementation, impact, transparency, and enforcement, i.e. the elements that we identified as the failure narrative's moralizing demands for greater 'depth'. As one EP bank reports, for instance (document statement): '[We] have put in place internal policies and processes that are consistent with the Equator Principles and report publicly on EP transactions and [the bank's] EP implementation status'. In other words, financial institutions that adopted the EPs 'sing their critics' song', albeit in a different voice that neither relates to the banks' success narrative nor equals the NGOs' failure narrative.

Commitment Narrative

EP banks have introduced policies that comply with the EPs and report publicly on our progress. They intend to deploy significant resources to ensure that the EPs become fully integrated into business processes and structures, promoting their application beyond international project finance. Importantly, sustainability receives increasing attention in-house because of the dedication of employees who ultimately make the EPs work.

The shift in narrative focus from diffusion to entrenchment is furthermore evident in what we label *promise-to-act* surface story, i.e. the promise to genuinely enact the adopted EPs' prescriptions. In comparison to the retrospective walk-the-talk story, in the promise-to-act story, the depth-related issues are typically narrated in the future tense, representing intentions and scheduled reforms, such as pledges to introduce internal policies, procedures, and training. To provide one example:

> We intend to initiate a project to refine and automate the procedures we have implemented. Feedback from applying the current system will be used to make adjustments to the process. We intend to automate the system, incorporate management and tracking tools, and deploy it over our network infrastructure to enable easy access across all regions. (Document statement by EP bank)

Such accounts also frequently name the intention to 'expand the scope' of the EPs to issue areas beyond project finance, such as corporate or retail finance, which probably hide 'the rest of the iceberg' (interview with EP bank representative). For instance, one EP bank representative confidently announced (document statement):

> [Our bank] is considering extending the [EPs] into [our] corporate-lending and private equity-investment businesses. This is in line with our broader corporate citizenship policies. […] And I'm optimistic it will help the bottom line, provide new business opportunities, respond to shareholder and employee concerns. That can only be a good thing for the company.

This promise-to-act story also emphasizes the creation of governance structures that comply with the EPs and 'formalize existing practices and procedures, increase the transparency of the [EP] Association, and […] ensure that [banks that adopt the EPs] meet their responsibilities such as public reporting on the [EPs] implementation' (document statement by EP bank). Importantly, the very intent to facilitate evaluation and to render entrenchment feasible, even if scheduled in an undefined future, signals a shift from decoupling to 'promising reform' as the primary organizational response to solve conflicting institutional demands (Meyer & Rowan, 1977: 356). Yet, although the promise-to-act story seeks to establish moral legitimacy for project finance activities by separating 'today's reality from

tomorrow's ideal' (Suchman, 1995: 590), it leaves unclear how espoused improvements are to be achieved.

A third surface story considers the very mechanism of the EP standard's further entrenchment. We term this the *Trojan horse* story because it metaphorically theorizes how a new set of meanings gradually penetrates and spreads inside a bank thanks to 'internal activists', i.e. employees in charge of EP implementation. The Trojan horse account is told by NGOs, financial institutions, consultants, and journalists, and cannot be assigned unequivocally to a single voice. With few exceptions, it did not emerge in public documents, but almost exclusively in our interviews (see Appendix 1). Furthermore, the Trojan horse story differs from the other surface stories in that it locates the focal actors not at the institutional field level but at the intra-organizational level. Specifically, the story distinguishes two types of bank employees: protagonists vs. antagonists of sustainability. The protagonists foster attention within the bank to the EPs and sustainability issues in general. Hiding inside the 'Trojan horse' of the EPs, they prepare so that the standard's effects extend beyond the specific field of project finance.

> The EPs are a Trojan horse. They have brought into the world's leading banks a first squadron of sustainability specialists. And what has emerged since then in bank after bank […] is that those specialists have […] pioneered and supported a range of innovations in banking. The EPs were a vital starting point. But the agenda has grown wider, and with it a wider potential role for banks has emerged to deliver platforms for sustainability solutions, from carbon finance, to women's banking to bottom of the pyramid banking to supply chain lending programmes. And this is just the beginning. (Document statement by consultant)

Internal activists, however, are confronted by their antagonists—other bank employees who are primarily oriented towards profitability. For the latter, CR standards like the EPs involve costs and constraints that 'pose a threat to our business' (interview with EP bank representative). This, in turn, creates tensions within the banks and prompts 'internal activists' to collaborate with 'external activists', i.e. representatives of NGOs: 'Some people within banks are deeply frustrated about their employers. They want to push the EPs further and get their point across, but it is difficult for them. That's why they need us [the NGOs]. There is a lot of resistance from within the banks' (interview with NGO representative).

Interestingly, the Trojan horse story indicates that even if banks only ceremonially adopt the EPs, they nevertheless sow the seeds for coupling processes (Tilcsik, 2010). This happens within their own walls, since internal activists and associated departments identify

with the stories of their critics and 'translate them into—more specific and selective—versions, which are then used in organizational [and individual] sensemaking processes' (Zilber, 2009: 206). Also, internal activists use their participation in the 'EP movement' as a tool to leverage their position in intra-organizational power games and thereby increase their material and ideational influence (Scott, 2008; Tilcsik, 2010). In sum, the Trojan horse story, as the valued endpoint of the commitment narrative, delineates a struggle between innovative and reactionary forces and at the same time outlines the collaboration between internal and external activists, as well as the construal of increasingly implemented sustainability policies across various issue areas, as a natural, meaningful, and ultimately inevitable development.

3.4.2 Narrative Dynamics

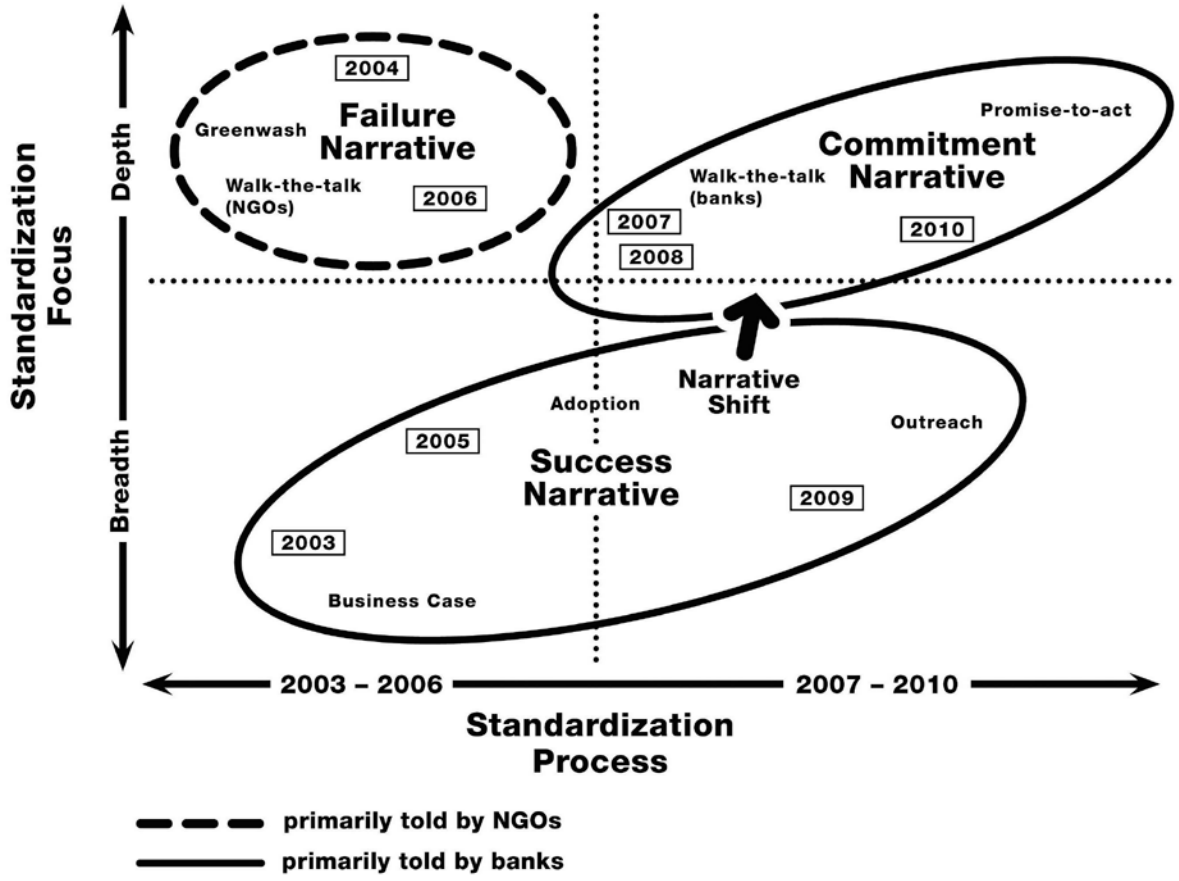
The second research question we addressed is how identified narratives and surface stories develop over time. Figure 5, generated with help of the QDA Miner software, visualizes the association between surface stories and time by displaying the results of correspondence analysis applied to the cross-tabulation of years and story occurrences in documents.

In Figure 5, the closer a surface story is located to the figure's origin, the more its profile resembles the average story profile. By 'profile' we refer to the distribution of code frequencies across years and documents. Conversely, the farther a story is located from the origin, the more singular its profile. Furthermore, the closer the resemblance between story profiles over time and across documents, the closer their locations in the graph (see Clausen, 1998). For instance, the proximity between the (NGO-narrated) greenwash and walk-the-talk stories indicates that, over time, they are closely linked across documents. Appendix 2 presents the data on which the graphical display of the correspondence analysis is based. To complement the graphical assessment of the data, we also considered the statistical output of the correspondence analysis, i.e. the total variance explained by axes and the contribution of single points to the variance of a single axis (Clausen, 1998; Greenacre & Blasius, 1994).

As can be seen in Figure 5, the horizontal axis separates the 2003–2006 from the 2007–2010 period, whereas the vertical axis separates breadth-related stories (*business case*, *adoption*, *outreach*) from depth-related stories (*greenwash*, *walk-the-talk*, *promise-to-act*). Although the horizontal axis is not fully characterized by linearity in time, we discern a clear sequence of growing year numbers from the left to the right side of the display. Our analysis of contributions shows that both the 2003 and 2010 values contribute most strongly to the horizontal axis. This supports our interpretation of the axis as the *process* of standardization,

given that the strongest points ought to be used to induce the overall meaning of an axis (Clausen, 1998; Meyer & Hoellerer, 2010).

Figure 5: Correspondence Plot of Narrative Dynamics



In turn, the breadth-related business case and adoption stories and the depth-related greenwash story contribute most strongly to the vertical axis. In view of the above, we interpret the vertical axis as the *focus* of standardization, with the upper part representing issues of entrenchment and depth, and the lower part representing issues of diffusion and breadth. Both axes' contribution to total variance is significant and amounts to 56.6 percent for the process dimension and 26.6 percent for the focus dimension respectively (see Appendix 2). Overall, the two dimensions explain 83 percent of the total variance, i.e. the extent to which the profile points are located around the origin. This percentage value is satisfactory, considering that the parsimonious account of two axes explains a large share of the cross-tabulation data (Clausen, 1998).

Note that the easy-to-sign and Trojan horse stories are not displayed in Figure 5. The easy-to-sign story had to be excluded, as an outlier analysis revealed an extreme profile what

impeded the interpretation of the remaining surface stories and their interrelations (Clausen, 1998). Also, the Trojan horse story is not displayed as it occurred only twice in our document data. Notwithstanding their relative paucity in documents, both surface stories were frequently narrated in interviews, in particular the 'conspiracy part' of the easy-to-sign story (see above).

Overall, Figure 5 reveals the occurrence and focus (breadth vs. depth) of surface stories and narratives over time. Note that the ellipses surrounding the sets of surface stories denote the group of actors (banks vs. NGOs) by whom each narrative is predominantly told. These ellipses are also meant as heuristic devices for assessing a narrative's predominance over time. However, the borders of the ellipses do not necessarily imply that the respective stories disappear beyond their range but that surface stories merely become less frequently told. We see that the success narrative, as told by financial institutions, persists over the years, with the outreach story as a more recent development. The NGO-driven failure narrative, addressing depth and entrenchment, appears quite early in the data and is less prevalent in the second phase of EP standardization (2007–2010). Most importantly, the banks' emergent commitment narrative represents a narrative shift, as the constitutive surface stories walk-the-talk and promise-to-act clearly address issues of entrenchment. Thus, during 2007–2010 the banks' narratives show an increasing focus on the depth of standardization, which was previously encountered mainly in the NGO-led failure narrative. Tellingly, the narrative shift in the discourse of financial institutions is accompanied by fading criticism, even praise for exemplary banks, by moderate NGOs. This is also echoed by the tenor of articles in the general media and trade journals, whose evaluations of the EPs are increasingly supportive, as can be seen in Table 2.

Table 3: Public Evaluation of the EP Standard

Tenor	2003	2004	2005	2006	2007	2008	2009	2010
Positive/Neutral	0.55	0.35	0.5	0.53	0.56	0.56	0.65	0.69
Negative	0.45	0.65	0.5	0.47	0.44	0.44	0.35	0.31

Sub-Set: General Media/Trade Journals; n = 269

It should be noted at this point that the results of correspondence analysis and their graphical interpretation are based on descriptive statistics that can be used 'to reveal features in the data rather than to confirm or reject hypotheses about the underlying processes which generate the data' (Greenacre & Blasius, 1994: vii). Accordingly, we cannot tell whether the failure narrative *causally* induced bank representatives to address discursively depth-related issues.

Nevertheless, in interviews with NGO representatives we gathered some anecdotal evidence for the constitutive impact of the communicative interaction between NGOs and banks over time. For instance, a NGO representative states (interview): 'The usual pattern is that at the meetings [between banks and NGOs] we bring up something, and then we face the usual resistance. Then, after some years, [the banks] come up with something which resembles what we said earlier, but very much watered down; for example, a working group or so'.

The time lag between most banks' words and deeds is confirmed by bank representatives themselves. A bank representative in charge of handling EP compliance elaborates on the role of ongoing NGO demands and internal activism (interview statement):

> Yes, the NGOs pull, express demands, and the banks follow them with a certain time lag. […] In many cases, the NGOs probably think this is easier than it actually is [for us]. […] In other words, we [i.e. the persons in charge of sustainability issues within banks] indeed have something like a mediating role – we are the ones who carry the [NGO] demands […] into the banks.

As the same interviewee points out, bank representatives now increasingly heed the NGOs' demand for greater transparency, although they had initially considered it impossible.

> At that time, [the bankers] said something like: 'This is not an option, this is not possible'. And now, the banks have come a long way and realize: 'We could also gain by doing this or we actually could do it'. So the banks have also arrived with some time lag at a point where the NGOs wished they'd have arrived earlier.

Intriguingly, the transformative influence of the EPs is confirmed by representatives of banks which have *not* adopted the EP standard. Here, the reason given for non-adoption is the concern that the EPs 'may get out of control' (statement repeatedly made in interviews with bank representatives), indicating their potential impact on organizational practice in a self-reinforcing manner (see Sydow, Schreyögg & Koch, 2009). In sum, our interview excerpts, combined with theoretical arguments that language is constitutive of CR (Basu & Palazzo, 2008; Christensen et al., 2011; Wehmeier & Schultz, 2011), suggest that the trajectory towards the further entrenchment of the EP standard is, at least partly, discursively constructed.

3.5 Discussion and Conclusion

The diffusion and entrenchment perspectives significantly enhance our understanding of CR standardization. Yet, neither of the two approaches is comprehensive as neither takes into account the underlying ideational dynamics of the process. In contrast, the standardization-as-narration perspective suggests that language not only reflects the degree and quality of standardization but renders diffusion and entrenchment accounts meaningful and legitimate in the first place. In the empirical section we demonstrated the usefulness of this supplementary approach and described the type and temporal development of prevalent narratives at the institutional field level of the EP standard. We found that the antagonistic *success* and *failure* narratives dialectically unfold over time and are replaced by the *commitment* narrative. In this final section we outline our contributions by discussing our findings in the light of existing works.

3.5.1 Rethinking Decoupling as a Transitory Phenomenon

By revisiting Meyer and Rowan's argument (1977) that decoupling offers organizations a stable means of coping with institutional contradictions, our study engages with a central debate in institutional theory. As Scott asserts (2008: 171), although 'some theorists treat decoupling as the hallmark of an institutional argument', the symbolic adoption of formal prescriptions is unlikely to be sustained in the long run as it 'involves processes by which an organization connects to the wider world of meaning'. Likewise, Tolbert and Zucker (1996) wonder whether the decoupling concept and its underlying assumptions are compatible with a phenomenological understanding of institutionalization, where taken-for-granted meanings are grasped as a tightly coupled, rather than decoupled, foundation of enacting a socially shared reality (Berger & Luckmann, 1967). Specifically, they disagree with Meyer and Rowan's argument that a decoupled structure can maintain its symbolic power without internal consequences, even 'in face of widespread knowledge that its effect on individuals' behavior is negligible' (Tolbert & Zucker, 1996: 180). Hence, according to both Scott (2008) and Tolbert and Zucker (1996), Meyer and Rowan's (1977) notion of decoupling as an enduring state alienates the concept of institutionalization from its roots in phenomenological social constructivism (Berger & Luckmann, 1967).

We contribute to this debate by taking an explicitly dynamic and social-constructionist perspective on CR standardization. Our findings render Meyer and Rowan's conception of decoupling possibly too static and highlight the idea that decoupling is merely a transitory

phenomenon (Boxenbaum & Jonsson, 2008; Scott, 2008). Intriguingly, in our empirical analysis of standardization in line with the EPs, we detect a set of narratives which unfolds sequentially, mirroring a narrative shift from diffusion to entrenchment, with banks increasingly addressing depth-related aspects of standardization. Through the aspirational commitment narrative, which portrays past implementation efforts as deficient, financial institutions admit—at least indirectly—previous decoupling. Although our study cannot provide direct evidence of decoupling or changes in decoupling in individual EP banks, our interview excerpts, as well as previous research on the constitutive impact of language on material CR outcomes (Basu & Palazzo, 2008; Christensen et al., 2011), support the conjecture that merely 'talking the talk' can be consequential as it compels organizations and their individual members to address inconsistencies between actual and idealized reality. From this viewpoint, acknowledging a difference means actively reducing the difference between word and deed. By 'singing their critics' song', i.e. echoing the NGOs' stories on 'depth' and 'impact' with a certain time lag, banks express their commitment to moral values, a phenomenon which we term 'moral entrapment', following the notion of 'argumentative self-entrapment' (Risse, 2000). Given that moral entrapment entails keeping promises and engenders creeping commitment, particularly when an organization is subject to public scrutiny, banks ultimately talk themselves into a new reality of doing project finance.

Previous studies have found evidence of coupling processes in organizations (Hallett, 2010; Tilcsik, 2010) without, however, focusing on the discursive-ideational underpinnings of these processes at the institutional field level or examining how field-level developments affect the social construction of local realities. Our study extends this literature critically by arguing that narrative contestation at the field level generates in organizations and individual members a sense of entitlement, conviction, and rationality of action, which may ultimately lead to a CR standard's full institutionalization (Zilber, 2009). At the organizational level, such changes can be triggered by employees in CR departments who 'both transmit and translate environmental demands to organizations' (Scott, 2008: 171). For instance, as soon as organizations create job functions related to the application of the EPs, the person(s) in charge of handling compliance with the EPs may start to gain organizational influence, facilitating the entrenchment of the standard. Also, merely adopting the EP standard and establishing a department for dealing with it increases the interest in and discourse on sustainability and CR within the organization, possibly nurturing a 'new generation of organizational members' who pursue explicit goals, rather than adhere to a 'hidden agenda' (Suchman, 1995: 588; see also

Tilcsik, 2010). At the individual level, organizational members have been found to experience an identity transformation in response to incongruence between self-perceptions and their beliefs of how 'significant others' view the organization they work for (Dutton & Dukerich, 1991; Fiss & Zajac, 2006). Conceivably, managers who rhetorically commit themselves to certain moral policies may eventually align their conduct to their rhetoric in order to avoid guilt and embarrassment, which arise from confrontations such as NGO allegations of organizational hypocrisy and misconduct (Suchman, 1995).

In sum, the identification of the commitment narrative and our insights into moral entrapment and creeping commitment are important for the development of institutional theory in that they bridge the phenomenological tradition of Berger and Luckmann (1967) with the decoupling argument of Meyer and Rowan (1977). The two strands can be reconciled by acknowledging that decoupling between the activities and the formal structure of an organization may be subject to coupling processes due to the transformative impact of communicative interaction and negotiation. Future research should further specify the boundary conditions and contextual circumstances under which decoupling fosters a motivation for behavioral change and thus heralds its own demise (Boxenbaum & Jonsson, 2008).

3.5.2 A Narrative Perspective on CR Standardization

Our study also contributes to the theorization of CR standardization, which it grasps as an institutionalization process that starts, rather than ends, with adoption. As shown above, institutional works grounded in the diffusion and entrenchment perspectives neglect the ideational aspects of standardization (e.g. Aravind & Christmann, 2011; Delmas & Montes-Sancho, 2011), and are thus unable to account for the connection between post-adoption processes, morally-laden language, and narrative contestation structured around the 'breadth' and 'depth' of standardization. The standardization-as-narration perspective we have introduced examines comprehensively how both diffusion and entrenchment jointly unfold over time, and how meaning is increasingly typified among business firms and their societal observers. Importantly, in a narrative perspective, CR standardization refers neither to the consistence of formal presentations nor to that of actual conduct but primarily to the consistence of narratives across time, localities, and voices. Our analysis implies that CR standards are not necessarily characterized by homogeneous practices but by increasingly homogeneous, co-evolving discourses about practice. In this reasoning, societal consensus on the usefulness and moral appropriateness of a CR standard may also extend to accepting their

heterogeneous implementation. Legitimacy-ascribing audiences may agree that there is no 'one-size-fits-all' approach to CR standardization, but that the process must be customized to specific organizational circumstances (see Ansari et al., 2010).

In short, the standardization-as-narration perspective importantly supplements extant diffusion and entrenchment accounts and provides a fruitful starting point for exploring the discursive-ideational constitution of CR standardization. Future research could study the interplay between narrative accounts and their reification in forms of texts, tools, templates, or other artifacts surrounding CR practices, as theorized by scholars who follow the 'actor network theory' (Latour, 2005) and the 'communication constitutes organizations' (CCO) perspective (Cooren et al., 2011).

3.5.3 Implications for NGO Efforts to Advance CR Standardization

The paper's third contribution is to conceptual works on the NGO–business relationship (Basu & Palazzo, 2008; den Hond & de Bakker, 2007). We have empirically demonstrated how NGOs can influence the justificatory and sensemaking processes of business firms; notably, the commitment narrative—the promises of banks to fully implement formal prescriptions—illustrates Basu and Palazzo's point (2008) that the 'content' of CR can be viewed as an outcome of the interaction between managers and their key constituencies, i.e. the 'significant others' in Berger and Luckmann's terminology (1967). Our findings complement Basu and Palazzo's arguments on the linguistic dimension of sensemaking, which they perceive as constitutive of CR, and also corroborate den Hond and de Bakker's assertion (2007) that NGOs achieve organizational and social change by challenging and modifying field frames; that is, the prevailing logics of conduct among a set of actors who are involved in the creation of meaning. In fact, as field frames are akin to the field-level concept of narrative (Pentland, 1999), the dialectical constitution of the EP standard (success, failure, and commitment narratives) can be reinterpreted within the framework developed by den Hond and de Bakker (2007) as the transformation of field frames.

In addition, our analysis of narrative dynamics in the context of EP standardization substantiates Schaper's point (2007) that NGOs exert 'discursive power' to influence EP banks in their lending decisions, which provides NGOs with structural power over project-sponsoring business firms. As we elaborate, discursive power emerges in the dialectical unfolding of narratives that engender shared meanings of appropriate behavior among banks and their external contenders. The commitment narrative and ensuing coupling processes indicate an initially spontaneous but increasingly deliberate, often mass-mediated,

communicative interaction between business firms and societal critics. From that viewpoint, discursive power and 'influence' refers to the persuasive force of worldviews that differ dramatically from those of banks and gradually evolve into processes of social construction. Future research could examine systematically whether and how NGOs purposefully employ language to push firms into a situation of entrapment and a novel organizational reality.

The potentially 'strategic' fabrication of moral entrapment also raises the paper's final point, namely whether the requirements of organizational accountability should be lenient or strict in order to promote the institutionalization of CR standards. Our findings emphasize the virtues of low barriers and restrictions: Relative ease of adoption has been arguably conducive to the diffusion of the EPs, although adoption possibly meant initially professed rather than actual compliance. Ubiquity helped consolidate the EPs' moral validity, making financial institutions increasingly realize the need to honor their promises and thoroughly implement the EPs, i.e. to 'walk the talk'. In contrast, higher entry barriers and more rigorous enforcement mechanisms may have slowed down the EPs' proliferation and thwarted creeping commitment, limiting adoption and entrenchment to a relatively small group of financial institutions. Considering that 'talking the talk', moral entrapment, and creeping commitment possibly constitute a viable way to global sustainability, instead of unconditionally sanctioning organizations for decoupling, it might pay off to tolerate their gradual transformation and encourage experimentation informed by mutual learning and dialogue.

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Appendix

Appendix 1: Narratives, Surfaces Stories, and Story Elements

Narrative	Surface Story	Primary Focus	Story Elements	Sample Quotes	Voice	Source
Success	Adoption	Breadth	Achievement	"Within a short time the [EPs] have evolved into an important success story"	EP bank	Documents
				[The EPs are] "an unprecedented voluntary private-sector initiative"	IFC	Documents
			Prestige	"We are very proud that [EP bank] is a signatory to the [EPs]. It means that we conform to a set of internationally recognized, voluntary project finance guidelines"	EP bank	Documents
			Growth	"There has been a significant growth in the number of EP adopters since its inception in 2003"	EP banks	Documents
			Coverage/ ubiquity	"43 [banks] have signed up which cover more than 85 percent of the global project-financing market"	EP bank	Documents
				"Since the [EPs]' launch a year ago, almost all the big names in project finance have signed up"	EP bank	Documents
			Affiliation	"The principles created a de facto global standard for the project finance business, and keeping the IFC policies as their core helps maintain that benefit of global consistency"	EP bank	Documents
	Business Case	Breadth	NGO pressure	"The [EPs] are proof that banks are feeling the heat from environmental groups worldwide"	NGO	Documents
				"It would be overconfident to say that the banks' very own impetus has finally led to the diffusion of the EP. […] Civil society is the decisive factor. […] Without this external pressure probably nothing would have happened."	EP bank	Interviews
			Risk management	"Project banks play an important role in development projects around the world, and particularly in the emerging markets. Environmental risk is a credit risk as well as a reputational risk"	EP bank	Documents
				"Basically, the development of the EPs is a response to reputational risk. Since reputational risk is quite high in big projects, the EPs evolved and diffused rapidly"	NGO	Interviews
			Specificity	"The EPs are good to handle because they are very concrete, broken down to the pH value of waste water"	EP bank	Interviews
			Win-win situation	"Aside from the 'feel good' [factor], it makes sound financial sense"	EP bank	Documents
				"Our clients recognize that they can achieve their aims most effectively if they apply the [EPs]. And because [EP bank] plays a leading role in championing them, existing and potential customers see our expertise in this area as a point of advantage. The result is a triple whammy. Our customers win. We win. And, very importantly, the societies where we operate win"	EP bank	Documents
	Outreach	Breadth	Geographic asymmetry	"The main issue when we talk about non-signatories are the banks from developing countries, especially the Chinese banks or Indian banks"	EP bank	Documents
				"My only wish is that all banks, including banks in large emerging countries, apply the same rules to avoid competitive distortion"	EP bank	Documents

Narrative	Surface Story	Primary Focus	Story Elements	Sample Quotes	Voice	Source
			Level playing field	"We are creating a level playing field, in which [banks] abide by the same environmental and social standards. Where once they competed solely on price, now they are starting to compete through innovative financing for environmentally sustainable projects. This is one of the most important initiatives in the financial sector"	IFC	Documents
				"The banks have come to realize that we should not compete in social and environmental issues; here we need minimum standards to avoid differentiation with a race-to-the bottom. The EPs create a level playing field."	EP bank	Interviews
			Join the club	[The EPs] "differ from other standards in that it is not only 'written on paper' but is a lively community of people, a 'living' standard so-to-speak"	EP banks	Interviews
				"The EPs have created the rare opportunity to regularly meet and to exchange expertise on best practices in project finance risk management - a strong incentive 'to join the club'"	EP banks	Interviews
Failure	Easy-to-sign	Breadth	Low entry barrier	"Even though [the EPs] are important […] they're really a floor, the lowest common denominator"	NGO	Documents
				"The problem with the [EPs] is that there is no monitoring system, which makes it easy for a bank to sign on to it without doing anything"	NGO	Documents
			Exit-door strategies	"At the same time, banks and project-executing firms try to restructure their project financing activities so that the EP criteria do not apply anymore. […] This is done, e.g., by re-classifying them as 'corporate finance'"	EP bank	Interviews
				"Banks have introduced risk classification sub-categories like B+, B, or B- which prevents them from having to classify a project as representing the toughest risk category A"	Consultant	Interviews
	Greenwash	Depth	Lacking implementation	"We suspect that [EP bank's] touting of the EP amounts to mere greenwashing […]; [they want] the public to perceive that it is 'green' while not really doing anything to enhance environmental protection"	NGO	Documents
				"The EP indeed are, in many cases, greenwashing. I've met an EP bank that was surprised to hear that it needed to train its project finance people about the environment"	EP bank	Interviews
			Lacking accountability	"If you have principles, you need to give external parties the opportunity to criticize or judge how you apply [them]. We've never seen those studies, so it is difficult to judge whether the project is EP-compliant or not"	NGO	Document
			Lacking impact	"Incredibly, no one knows whether any environmental or social outcomes were improved by [EP bank's] decisions to finance the 20 projects or to not finance the other 66 projects"	NGO	Documents
	Walk-the-talk (NGOs)	Depth	Keep your promise	"BankTrack calls upon the new chair to no longer resort to empty slogans and hollow promises and to get to work on improving the performance of the [EPs] on a number of urgent issues that, if left unsolved, threaten the very credibility of the [EPs] as a sustainability initiative that delivers"	NGO	Documents
				"If the banks involved were serious about their environmental performance they would put their money where their mouth is and fully implement the [EPs]"	NGO	Documents
			Improvement path	"What we want to see is the sector brought up to the best existing practices, not settling for the least common denominator […] These [EPs] are a good first step only if there is a second, third and fourth step."	NGO	Documents

Narrative	Surface Story	Primary Focus	Story Elements	Sample Quotes	Voice	Source
			Good & bad banks	"Rather than diluting the [EPs], by adding a new category of vague 'associates', EPFIs should strive to create a bold 'Coalition of the Willing', a cohort of banks ready to make a substantial sustainability commitment"	NGO	Documents
				[T]here's three categories [of EP banks]: banks that have taken this to heart, […]; banks that are adopting and working through the implementation, […]; and the free riders […] – unfortunately many of the signatories fall into the third category."	NGO	Documents
Commitment	Walk-the-talk (banks)	Depth	Achieved implementation	"[EP] training has been provided to 75% of our Project Finance staff [...]; further work is being undertaken to implement a specific toolkit, training program and reporting process across our global Project Finance business"	EP bank	Documents
				"We have put in place internal policies and processes that are consistent with the [EPs] and report publicly on EP transactions and our EP implementation status"	EP bank	Documents
	Promise-to-act	Depth	Intended implementation	"We intend to initiate a project to refine and automate the procedures we have implemented. Feedback from applying the current system will be used to make adjustments to the process. We intend to automate the system, incorporate management and tracking tools, and deploy it over our network […]"	EP bank	Documents
				"It is our intention to report annually on our [EP] transactions, and this will include details on the number of transactions screened against [EPs], as well as the category breakdown (A, B or C)"	EP banks	Documents
			Expansion of scope	"[Our bank] is considering extending the EP into [our] corporate-lending and private equity-investment businesses. This is in line with our broader corporate citizenship policies. […] And I'm optimistic it will help the bottom line, provide new business opportunities, respond to shareholder and employee concerns. That can only be a good thing for the company."	EP bank	Documents
				"[The EPs are] just the tip of the iceberg, a good preparatory forum for these bigger things. The real work is in retail banking – screening thousands of loans. That's the rest of the iceberg"	EP bank	Interviews
			Governance	"[T]he new governance framework ensures that there are effective decision making procedures for the enlarged group of adopting institutions. The Rules will make us more efficient as we continue to grow, and members will be held accountable to them. We believe that the Rules are an important step forward in a broader strengthening of the Association's governance and EP implementation"	EP bank	Documents
	Trojan horse	Depth	Internal activism	"The persons in the banks in charge of sustainability issues indeed have something like a mediator role – they are the ones who carry the NGO demand into the banks"	EP bank	Interviews
				"Most importantly, however, the EPs helped to trigger conversations within banks and to initiate discussions like: If we have this useful tool here to manage social and environmental risks why don't we apply it also to other financial products?"	IFC	Interviews
			Internal tensions	"There are already internal tensions and inconsistencies within many [EP] banks, where asset management, investment banking and advisory teams are often much less willing to factor in sustainability issues than their [EP]-trained project finance colleagues."	NGO	Documents
				"Some people within banks are deeply frustrated about their employers. They want to push the EPs further and get their point across, but it is difficult for them. That's why they need us [the NGOs]. There is a lot of resistance from within the banks"	NGO	Interviews

Appendix 2: Correspondence Scores and Explained Variance per Axis

Narrative	Surface stories	x-Axis: Standardization process (2003-2006 vs. 2007-2010)	y-Axis: Standardization focus (breadth vs. depth)
Success	**Adoption**	0.04	-0.95
	Business case	-0.97	-2.53
	Outreach	1.68	-1.01
Failure	**Greenwash**	-1.59	0.97
	Walk-the-talk (NGOs)	-1.52	0.53
Commitment	**Walk-the-talk (banks)**	0.64	0.43
	Promise-to-act	2.25	1.11
	Explained variance per axis	56.60%	26.60%

4 Article 3: Legitimacy-as-Feeling: How Affect Leads to Vertical Legitimacy Spillovers in Transnational Governance

Co-authored by Andreas Georg Scherer

Abstract

Our study integrates the literature on legitimacy in institutional theory on the one hand and psychological research on heuristic reasoning on the other to examine how intuiters—non-experts who apply heuristics to make sense of complex environments—reach a cognitive legitimacy judgment on transnational governance schemes (TGSs). Extant research assumes that organizations are cognitively legitimate when they can be assigned to an established cognitive category. Given the difficulty of assessing TGSs on the basis of direct or mediated experience, we suggest that intuiters cannot rely on categorical inference to evaluate a TGS. Instead, they frequently draw on affect-based responses towards a TGS's more tangible organizational components, such as participating business firms, to judge the legitimacy of the TGS as a whole. This part–whole substitution spans various levels of analysis and produces a "vertical" legitimacy spillover. Here, we examine the heuristic judgment process underlying spillovers and derive implications for the concept of cognitive legitimacy.

Keywords

Affect, heuristic judgment, legitimacy, spillover, transnational governance

4.1 Introduction

In institutional theory, cognitive legitimacy refers to the comprehensibility and taken-for-grantedness of a legitimacy subject, such as an organization or organizational activity (Suchman, 1995). For novel and largely unfamiliar organizations the acquisition of cognitive legitimacy is essential, as skeptical beholders are "afraid of being taken for fools" and may thus withhold their support (Aldrich & Fiol, 1994: 650). Research on social judgment formation suggests that beholders confer cognitive legitimacy ("legitimacy" hereafter) to organizations that can be assigned to an established cognitive category; that is, a class of organizations that are similar in terms of certain features that lend themselves as criteria for judgments (Bitektine, 2011). The taxonomy of categories follows a "vertical" structure, whose levels are hierarchically interrelated on the basis of class inclusion (Porac & Thomas, 1990). This means that legitimacy subjects at lower levels "inherit" the properties of subjects at superordinate levels; for instance, an "Italian restaurant" and a "French restaurant" share the features of the overarching category "restaurant". From this perspective, extant studies of legitimacy imply that beholders rely on categorical inference to form a legitimacy judgment and assume that the mental representations underlying such judgments are widely established, stable, and hierarchically ordered on the basis of resemblances in organizational characteristics (Negro, Koçak, & Hsu, 2010).

We argue that accounts of legitimacy that are based on similarity cannot explain the process of legitimation in the case of weak or missing categorical structures. In such situations, comparisons based on similarity are mentally demanding and individuals struggle to classify organizations on the basis of resemblances in organizational features. We posit that organizations that cannot be classified on that basis are not necessarily disadvantaged, in the sense of being ignored or negatively evaluated (Zuckerman, 1999). Our argument is that there are alternative ways to confer legitimacy – a point that has been largely overlooked by the extant literature on judgment formation. We combine research on heuristic judgment in cognitive psychology (Kahneman & Frederick, 2002) with the individual-level approach to legitimacy in institutional theory (Bitektine, 2011; Tost, 2011) to develop a novel perspective on the processes underlying legitimation and categorization. In cognitive psychology, the term "heuristic" describes a mental shortcut that allows an effortful judgment to be replaced with a conceptually related but less demanding judgment (Shah & Oppenheimer, 2008). From the perspective of heuristics, the standard premise of classification in terms of legitimacy is that

individuals can determine the degree of similarity between a legitimacy subject and a prototypical category member with relatively little effort. Thus, similarity functions as a sort of heuristic in that it helps assess the likelihood of a subject's categorical membership and thus determines its legitimacy status (Yu, Sengul, & Lester, 2008).

We draw on the case of "transnational governance schemes" ("TGSs" hereafter) to illustrate that the heuristics framework clarifies and bolsters the institutional theory view on legitimacy in the absence of a fixed and stable set of categories. We use the term "transnational" to define interactions that cross national borders and, in contrast to agreements strictly between public actors, also encompass a variety of private actors, such as non-governmental organizations (NGOs) and business firms (Djelic & Quack, 2008; Keohane & Nye, 1974). The participant organizations that comprise a TGS may devise, negotiate, and implement the regulation of global policy issues, as well as provide global public goods, either in hybrid public–private partnerships or in associations between private actors without the support of public authorities (Waddock, 2008). For instance, TGSs may establish globally applicable frameworks for sustainable corporate reporting (e.g. the Global Reporting Initiative; Etzion & Ferraro, 2010) or certification procedures for the responsible management of timber (e.g. the Forest Stewardship Council; Scherer & Palazzo, 2007), or advance the alignment of business operations with general principles in the areas of human rights, labor standards, the environment, and anti-corruption (e.g. the UN Global Compact; Rasche, 2009).

Below we examine how non-expert members of society at large assess the legitimacy of TGSs, which address issues of public concern. We refer to these assessors as "intuiters" and argue that they judge the legitimacy of TGSs by applying heuristics. On the whole, intuiters are not familiar with TGSs and find it difficult to establish mentally a clear and stable categorical prototype (Fiske & Taylor, 2008). Furthermore, the more tangible components of TGSs, such as business firms, differ in several features and are thus not directly comparable, which makes categorical inference based on family resemblance even harder. Overall, the processes underlying the legitimation of TGSs and other novel forms of organizing that lack a "categorical grounding" constitute a puzzle for institutional theorists. This paper's central question is, how do intuiters reach a legitimacy judgment in the context of transnational governance, i.e. a setting characterized by weak or undetermined categorical structures?

Addressing this question is important as it clarifies that cognitive legitimacy does not derive exclusively from category inclusion based on similarity, but also from positive or negative affect (Slovic, Finucane, Peters, & MacGregor, 2002). That is, in the presence of

tentative or weak categorical structures, affect often functions as a heuristic that allows observers to form a legitimacy judgment about an unknown legitimacy subject. In the context of transnational governance, legitimacy derives from affectively charged assessments of the associations between a TGS and already legitimate subjects. We propose that intuiters make affective judgments about the highly accessible scheme members, such as private business firms, relatively easily, which they apply to their assessment of the TGS as a whole. This part–whole substitution spans various levels of analysis and produces a vertical legitimacy spillover; that is, a legitimacy transfer from a scheme member to the overarching TGS, without the legitimacy of the former being affected (Kostova & Zaheer, 1999). This transfer affects the perception of the recipient's legitimacy, that is, enhances or reduces the extent to which a TGS is deemed taken-for-granted (e.g. a business firm that participates in a TGS and is involved in an environmental scandal is likely to weaken the perceived legitimacy of the TGS as a whole).

With this study, we seek to contribute to institutional theory in several ways. First, through the legitimacy-as-feeling perspective we will establish in the course of the paper, we expound the affective-heuristic underpinnings of cognitive legitimacy and clarify that taken-for-grantedness does not necessarily derive from a fixed category to which an organization has been allocated but from rapidly cued associations with the organization's context. Second, by identifying the perceptual mechanism of vertical legitimacy spillovers, we will offer a comprehensive explanation of such phenomena. So far, little attention has been paid to cross-level transfers of legitimacy and other forms of social approval (Deephouse & Suchman, 2008). Third, we will analyze legitimacy dynamics in transnational governance, thereby adding to recent analyses of legitimacy as a decisive ideational factor in the institutionalization of transnational governance (Djelic & Quack, 2008; Scherer & Palazzo, 2011).

This paper is structured as follows. We begin by delineating differences and commonalities in the base assumptions of the individual-level approach to legitimacy in institutional theory and of research on heuristic reasoning in cognitive psychology. To integrate these two fields, we establish the perspective of the intuiter. We then go on to interpret the bestowal of legitimacy and the incidence of legitimacy spillovers within a heuristics framework, by using the emergence of transnational governance as a running case. This enables us to derive propositions about the type, valence, and strength of spillovers, and account for a positive–negative asymmetry in spillover effects. Following that, we describe

how legitimacy incrementally grows until a saturation level of taken-for-grantedness is reached. We conclude with an account of the study's contributions and suggestions for future research.

4.2 Judgment Formation in Institutional Theory and Cognitive Psychology

The study of legitimacy in transnational governance can be addressed from two perspectives: institutional theory and cognitive psychology. In the following, we compare and subsequently draw on both bodies of literature in order to enhance our understanding of how legitimacy is heuristically bestowed.

In institutional theory, legitimacy has been defined as a "generalized perception" that emerges as an irreducible whole out of the social interaction of individuals (Suchman, 1995: 574). However, most such studies disregard the way individuals form a legitimacy judgment and describe individuals as "audiences" who passively observe the organization and its activities (Bitektine, 2011). Hence, notwithstanding the acknowledgment that legitimacy represents a relationship between a legitimacy subject and a collectivity of beholders, the majority of institutional theory studies on legitimacy perceive human behavior in a manner that resembles "stimulus–response" approaches, which neglect the fact that "individuals actively participate in perceiving, interpreting, and making sense of their world" (Scott, 2008: 37).

Given that individuals are often active enactors of legitimacy, and its subjective nature, Deephouse and Suchman (2008) have cautioned researchers to focus on how and where legitimacy is constructed. Bitektine (2011: 151) designates individuals that confer legitimacy as "evaluators" and stresses the "importance of active cognitive processing, information search efforts, and social interactions" that precede the formation of legitimacy judgments. Indeed, legitimacy and other forms of social approval derive from the coalescence of individual perceptions that ultimately develop in the eye of the beholder; that is, in the psyche of evaluators (Zimmerman & Zeitz, 2002). Thus, the collective approval of a legitimacy subject depends, at least partly, on the consolidation of individual judgments (Johnson, Dowd, & Ridgeway, 2006; Tost, 2011).

Bitektine (2011) and Tost (2011) specify the individual-level processes underlying legitimacy judgments and distinguish an "evaluative" and a "passive" mode of judgment formation. If there are time constraints and uncertainty, if information is incomplete, and the legitimacy status of a subject is "unknown" or "undetermined," most individuals lack the

motivation to engage in an effortful mode of reasoning and derive their assessments intuitively. In this less effortful passive mode, they apply heuristics to compensate missing information. Specifically, individuals that are unable to classify an organization into a pre-existing cognitive category, turn to legitimacy subjects that they perceive as similar to the organization in question in order to form a legitimacy judgment (Bitektine, 2011). Furthermore, to reach such a judgment they rely on "validity cues" and the judgment of "legitimate others" (Tost, 2011: 696), a point which echoes previous evidence in institutional theory that connections and analogies to already legitimate subjects are a major source of legitimacy (Cornelissen & Clarke, 2010; Etzion & Ferraro, 2010; Henisz & Zelner, 2005). Hence, both Bitektine (2011) and Tost (2011) take into account the communal nature of legitimacy and explicate how the social context enters judgments of legitimacy on the level of individuals. Yet, while they reintroduce the concept of the "organism" into the "stimulus-response" model and highlight the prevalence of non-conscious processes, their studies do not discuss adequately how judgment heuristics actually work.

By contrast, in cognitive psychology the heuristic processes that precede individual-level judgments have been analyzed extensively. Dual-process theories of judgment and decision-making (Kahneman, 2011) and of social cognition (Chaiken & Trope, 1999) argue that human behavior is influenced by mental operations that can be distinguished in "System 1" processes, which are quick, associative, and intuitive, and "System 2" processes, which are rather slow, rule-governed, and deliberate. By default most assessments are guided by System 1 operations without active deliberation. Only in situations where System 1 fails to deliver judgment mental operations switch to System 2 (Kahneman, 2011). Kahneman and Frederick (2002) develop a general model of intuitive judgment that includes the three heuristics of representativeness, availability, and anchoring, which were identified in a seminal paper by Tversky and Kahneman (1974). Kahneman and Frederick argue that judgment formation is "mediated by a heuristic when an individual assesses a specified *target attribute* of a judgment object by substituting [it with] another property of that object—the *heuristic attribute*—which comes more readily to mind" (Kahneman & Frederick, 2002: 53, emphasis in the original). The authors refer to the replacement of attributes as "attribute substitution." The formation of judgments is governed by *attribute substitution* when (1) the target attribute is relatively inaccessible, (2) a semantically or associatively related attribute is highly accessible (the "heuristic" attribute that serves as a potential substitute), and (3) attribute substitution occurs unconsciously and can thus be linked to a "passive" System 1 mode of

evaluation; that is, when the rejection of the target attribute is not deliberate. In short, in System 1 processes individuals apply heuristics by replacing a difficult judgment with an easier judgment (Shah & Oppenheimer, 2008).

While cognitive psychology identifies the intra-individual mechanism underlying heuristic judgment, a major limitation is that it tends to regard human actors as "solitary thinkers" that are disconnected from the social contexts in which they are embedded. In other words, the conception of individuals in cognitive psychology is too asocial to allow a realistic approach to human cognition (DiMaggio & Markus, 2010; Zerubavel, 1997). Furthermore, it exaggerates the detrimental effects of heuristics, creating the impression that individuals act as "cognitive misers," a model proposing that individuals are "lazy," avoid mental effort whenever possible, and are subject to manifold biases that reduce the quality of their judgments (Fiske & Taylor, 2008).

Although both cognitive psychology and the individual-level approach to legitimacy in institutional theory share an interest in analyzing similar empirical phenomena (the processes of judgment formation), and focus on the same level of analysis (the individual level), they have different base assumptions about human behavior (cognitive vs. social actors). Notwithstanding this obstacle, we suggest that the respective strengths and weaknesses of each perspective offer common ground that allows their theoretical integration (Okhuysen & Bonardi, 2011). More specifically, we argue that these viewpoints are complementary and, as discussed at length below, enhance and consolidate our understanding of legitimacy judgments in transnational governance. The institutional-theory's view that judgments about legitimacy accrue through processes of social interaction and environmental influence can enrich the cognitive psychology literature by highlighting the inherently contextual foundation of human cognition. In turn, as research on legitimacy has not specified yet the exact mechanism underlying heuristic judgment, it can benefit from incorporating the account of attribute substitution (Kahneman & Frederick, 2002). Our argument is that blending psychological and social-constructionist viewpoints can open the "black box" of institutional processes (Zucker, 1991: 104) and offer an opportunity to develop a theory of the inter-subjective processes of perception, interpretation, and interactions at the core of understanding legitimacy and institutional change on the micro-level (Suddaby, 2010). Overall, the proposed integration does not aim to "psychologize" the legitimacy construct but is based on the pragmatic premise that institutional theory can be advanced by including

insights from cognitive psychology (DiMaggio & Markus, 2010; George, Chattopadhyay, Sitkin, & Barden, 2006).

4.3 Pushing the Boundaries: Towards a Legitimacy-as-Feeling Perspective

In this section we develop our argument on the heuristic judgment process in transnational governance. By applying the perspective of the intuiter, we explain that when legitimacy subjects resemble each other, beholders infer naturally that these subjects belong to the same category and draw on attributes of a prototypical category member to judge the subject whose legitimacy is to be assessed. In the context of organizations, we argue that when categorical structures are weak, intuiters cannot rely on similarities in organizational features to form a judgment about a TGS but often draw on affective responses towards more accessible TGS constituents.

4.3.1 Neither Evaluator nor Cognitive Miser: Members of the Public as Intuiters

Considering that TGSs mainly address issues of public concern, such as the protection of global ecosystems or the prevention of human rights violations, we will focus on how members of *society at large* assess the legitimacy of such schemes, rather than on experts and political and economic elites. Although such groups influence significantly both the administration of TGS constituents and transnational processes (Haas, 1990), their legitimacy beliefs, values, and behavioral dispositions towards global issues are strongly influenced by the public, either directly through the electoral process or, more subtly and over longer periods of time, through processes of socialization and norm diffusion (Burstein, 2003).

As already explained, throughout this paper, we refer to the non-expert members of the public as “intuiters.” This term indicates that these individuals bestow legitimacy heuristically, i.e. arrive at their judgments by intuition, defined as “affectively charged judgments that arise through rapid, nonconscious, and holistic associations” (Dane & Pratt, 2007: 40). Expanding this description, our conception of the intuiter is based on the following assumptions: first, by default intuiters eschew the active evaluation of legitimacy subjects in contrast to the model of “evaluators,” described earlier (Bitektine, 2011). In line with the model of attribute substitution, intuiters judge complex environments by “replacing” a relatively difficult legitimacy judgment with an easier judgment. As discussed below, this easier judgment is often based upon negative or positive affect. Second, intuiters cannot be equated with “cognitive misers” either; a model of cognition which neglects the role of

motivation or feelings and implies that heuristic judgment is "fast but not very good" (Fiske & Taylor, 2008: 13). The concept of intuiters is closer to the model of "activated actors," which holds that social contexts rapidly cue perception, associated cognitions, affect, and judgments, often in line with an individual's motives (Fiske & Taylor, 2008: 13). Thus, whereas earlier studies interpreted heuristics as a source of bias (Tversky & Kahneman, 1974), the concept of the intuiter suggests that heuristics are "fast and good" and provide helpful means of assessing ambiguous contexts (Gigerenzer & Brighton, 2009). Third, and as a consequence of the two previous points, the foundation of heuristic judgment is not considered to be exclusively intra-individual but to lie partly outside the intuiter (DiMaggio, 1997). In the context of organizations, intuiters often bestow legitimacy heuristically by relying on an unfamiliar organization's observable associations to other legitimate subjects, and thereby construct "horizontal" and "vertical" legitimacy spillovers (Kostova & Zaheer, 1999).

Horizontal spillovers refer to the transfer of legitimacy from an originating to a recipient legitimacy subject within the same level of analysis; for instance, between two business firms in the same industry (Desai, 2011). In turn, *vertical* spillovers denote the cross-level transfer of legitimacy, e.g. from a single subsidiary to the overarching parent company (Kostova & Zaheer, 1999). In line with Kostova and Zaheer (1999), here we speak of a *positive* (legitimacy-enhancing) spillover when an increase in the recognition of the originating subject increases the recognition of the recipient subject. In contrast, in *negative* (illegitimacy-enhancing) spillovers, the illegitimacy of the recipient increases with the illegitimacy of the originator. Furthermore, vertical spillovers may occur in a *bottom-up* direction, when legitimacy "flows" upwards from a scheme member to a recipient TGS, or in a *top-down* direction, when legitimacy "flows" downwards from a TGS to a recipient member. The overall advantage of the concept of spillovers and that of the intuiter is that they fill important gaps and thus complement the institutional theory and cognitive psychology perspectives, which neglect the situational context and the internal mediation of external stimuli respectively. Moreover, these concepts enable us to acknowledge that situation and cognition are inherently intertwined and to develop a coherent explanation of the heuristic bestowal of legitimacy in transnational governance.

4.3.2 The Heuristic Foundation of Legitimacy Spillovers

Kostova and Zaheer (1999) define the *representativeness* heuristic as the microfoundation of legitimacy spillovers. "Representativeness" describes the tendency of intuiters to use the degree of similarity between a legitimacy subject and a prototypical category member for

assessing the likelihood of the subject's categorical membership (Tversky & Kahneman, 1974). Translating the representativeness heuristic into the spillover concept, Kostova and Zaheer suggest that "when an institutional environment judges the legitimacy of a particular organizational unit, it will refer to the legitimacy of other organizational units that are *similar* to the focal unit, since they belong to the same cognitive category—for example, to the same class of organizations" (1999: 75; emphasis added). Indeed, most spillover studies follow the central tenet that social actors such as organizations are typified into cognitive categories (Berger & Luckmann, 1967; Porac & Thomas, 1990), and concur that legitimacy transfers are influenced by the degree of similarity between legitimacy subjects (Desai, 2011; Jonsson, Greve, & Fujiwara-Greve, 2009; Yu et al., 2008).

However, the application of the representativeness heuristic to the analysis of legitimacy in transnational governance presents several problems. First, heterogeneity among transnational organizations implies that the category boundaries of TGSs are fuzzy and their mental representation is ambiguous and incomplete. Consequently, the set of available exemplars cannot produce a clear prototype that is easily brought to mind (Fiske & Taylor, 2008). When the recipient of a legitimacy spillover cannot be unambiguously categorized, it is much harder for intuiters to ascribe legitimacy on the basis of similarities between the recipient and originating entities (Yu et al., 2008). Second, in the analysis of verticality, categorical prediction based on similarity is of limited use, as it does not follow that legitimacy subjects residing at different levels of analysis are similar. In fact, overarching TGSs are often strikingly dissimilar from their lower-level members. In the absence of shared characteristics, such as type of ownership, organizational goals, governance and control systems, organizational structures, etc., intuiters will struggle to mentally represent the hierarchy that comprises both the overall governance scheme and its members (Porac & Thomas, 1990). This contrasts sharply with the categorization of business firms, for instance, which operate horizontally in a single institutional environment (e.g. a specific industry) and share a considerable number of well-established characteristics that account for horizontal legitimacy spillovers. Third, Kostova and Zaheer (1999: 75) argue that "[p]ositive and negative spillovers may not be completely symmetric in their effects, in that negative spillovers are likely to have a stronger effect on legitimacy than will positive spillovers." In a transnational context, this means that the negative impact of a corporate scandal is comparatively larger (in that it reduces the overall legitimacy of the TGS) than the positive impact of a corporate best practice of similar magnitude (which would enhance the TGS's

legitimacy). However, the concept of representativeness cannot fully explain the relatively greater impact of negative spillovers.

We argue that institutional analysts need to go beyond spillover studies that center on representativeness (Desai, 2011; Jonsson et al., 2009) and recognize that a TGS and other types of "meta-organizations" (Ahrne & Brunsson, 2008) are composed of a heterogeneous group of lower-level member organizations. Whereas in hierarchical representations based on class inclusion the category "organization," for instance, encompasses the lower-level categories "for-profit organization" and "not-for-profit organization" while the category "multinational oil company" represents the lower-level categories "BP" and "Shell", in contrast, TGSs are *collections of parts*, not *classes of instances* as similarity-based theories of legitimacy and categorization imply. In other words, a TGS member (such as a business firm or an NGO) is not an "instance" but a "part" of the TGS. Furthermore, an organization can be a member and a part of several and very different TGSs; this, however, cannot be represented by the "stem-and-branch" type of taxonomy (Durand & Paolella, forthcoming; Murphy, 2002). By contrast, mental models based on part–whole substitutions embody nested networks of loose associations that are very distinct from classes. In view of the above, it follows that, to study vertical legitimacy spillovers more comprehensively it is necessary to complement, and to some extent replace, representativeness and class inclusion with the rationale of part–whole substitution, where intuiters "take one well-understood or easy-to-perceive aspect of something and use it to stand either for the thing as a whole or for some other aspect or part of it" (Lakoff, 1987: 77).

4.3.3 Affect-based Attribute Substitution

The model of attribute substitution (Kahneman & Frederick, 2002) allows us to subsume representativeness, and other forms of intuitive judgment (Tversky & Kahneman, 1974), under a unified framework that specifies *how* intuiters confer legitimacy. When representativeness is explained from the perspective of attribute substitution, intuiters replace the target attribute "likelihood of a subject's categorical membership" by the mentally less effortful judgment "similarity between a subject and a prototypical exemplar of a legitimate category." However, in taxonomies based on part–whole associations, the structure of categories does not rest on resemblances and the incidence of vertical legitimacy spillovers cannot be determined by the question "how similar is a scheme member to the overarching TGS?"

Given the non-applicability of representativeness, we suggest that intuiters often utilize affect as a heuristic attribute to substitute a judgment on legitimacy in part–whole associations. Basing judgments on the positive or negative affect evoked by a stimulus has been termed "affect heuristic" (Slovic et al., 2002). In the literature, there is a growing recognition that feelings form an integral component of judgment formation and decision-making (Finucane, Alhakami, Slovic, & Johnson, 2000; Schwarz, 2002). Affect is used as a mental shortcut when assessments are made in various domains and problem-settings (for an overview see Slovic et al., 2002), including moral judgment (Haidt, 2001), consumer choices (Sinaceur, Heath & Cole, 2005), cost–benefit assessments of technologies (Finucane et al., 2000), willingness to pay for public goods (Kahneman, Ritov, & Schkade, 1999), and inference of familiarity (Monin, 2003). The growing emphasis on the role of affect in judgment and decision-making is in line with recent research in management studies, which discusses the link between cognition and affective-intuitive processes (Dane & Pratt, 2007; Elfenbein, 2007; Hodgkinson & Healey, 2008, 2011) and with works that elucidate the emotional foundation of institutions (Scott, 2008; Voronov & Vince, 2012).

Importantly, the affect heuristic is fully consistent with the model of attribute substitution and our theorizing about part–whole associations in transnational governance; in the present context, the mentally "difficult" target attribute of transnational legitimacy is replaced with an affectively determined and mentally "easy" heuristic attribute. Given that most stimuli elicit affective responses (Brief & Weiss, 2002), we extend the rationale of affect-based attribute substitution to the analysis of legitimacy in transnational governance. Examples of stimuli relevant to our context include large-scale environments and events, particularly if they pertain to socio-political issues (Taber & Lodge, 2006). In the following, we theorize that affective responses towards lower-level constituents of TGSs function as heuristic attributes and determine the type of legitimacy spillover (Proposition 1). We further posit that the intensity of positive or negative affect accounts for any variance in spillover strength and valence (Proposition 2). Finally, we discuss a positive–negative asymmetry in spillover effects (Propositions 3a and 3b) and specify the marginal effects of affect-based attribute substitution (Propositions 4a and 4b).

4.4 The Primacy of Lower-Level Constituents

Kahneman & Frederick (2002: 55) caution that there "is sometimes more than one candidate for the role of heuristic attribute" and in such cases "a contest of accessibility determines the

role of the two heuristics in the final response." For that reason, "it is not always possible to determine a priori which heuristic governs the response to a particular problem." In the context of legitimacy in transnational governance, this means that the relative accessibility of legitimacy subjects, i.e. the ease with which a subject comes up to mind, determines which stimuli emerge as the "winning" heuristic among possible contenders and whether a spillover is horizontal, vertical "bottom-up," or vertical "top-down."

We argue that affective responses to the constitutive members of a TGS, to private business firms in particular, often provide the most accessible course towards forming legitimacy judgments about the TGS itself. Business firms are "an omnipresent, socially significant, and influential feature of modern life" (Lange & Washburn, 2012: 303). Although the majority of transnational activities seem "to be conducted in the quiet" (Ahrne & Brunsson, 2008: 161), the activities of the business firms that constitute a TGS are more visible and more comprehensible than those of the TGS itself. Beholders either have direct contact with business firms (as customers, employees, etc.), or exchange information and judgments with others (Bitektine, 2011), or gain "info-mediated" experience of business firms, i.e. information provided by intermediaries such as the news media (Deephouse, 2000). Indeed, the news media's growing coverage and evaluation of business firms (Carroll & McCombs, 2003) offer numerous affect-laden cues that facilitate intuitive judgments on the legitimacy of TGSs, provided they are "conceptually and associatively related" (Kahneman & Frederick, 2002: 54). Furthermore, business firms actively publicize and thus promote their association with reputed TGSs, for instance by certifying their plants, products, and services in keeping with standards developed and set by TGSs. In comparison, generally TGSs are not as present in the media nor do they deliver actively information about transnational issues. Thus, most intuiters have comparatively less direct or info-mediated experience of TGSs and consequently an unclear or incomplete mental picture of particular TGSs.

Attribute substitution based on affective responses to lower-level scheme members meets the three boundary conditions for heuristic judgment (Kahneman & Frederick, 2002): (1) the target attribute "legitimacy of a higher-level subject," such as a TGS, is relatively inaccessible to most intuiters, (2) affective reactions towards actions or tangible characteristics of TGS members that are conceptually or semantically related to the TGS serve as more accessible heuristic attributes, and (3) the automatic substitution process is not overridden by deliberate assessments (System 2 processes). In other words, in affect-based attribute substitution the mentally less effortful question "How do I feel about a member of an

unfamiliar TGS?" substitutes the more difficult questions "What is the TGS? Does the TGS represent a legitimate entity?" We therefore suggest the following proposition:

> *Proposition 1: In situations when stimuli from a constitutive scheme member are more accessible than stimuli from the overarching TGS, intuiters draw on their affective response towards that member to form a legitimacy judgment about the TGS, which leads to a bottom-up legitimacy spillover.*

Note that the affect heuristic does not exclude the potential effect of deliberately processed information, however partial this may be, on judgment formation (System 2 processes). Our argument is that the affect heuristic provides a relatively effortless way of forming a legitimacy judgment about TGSs, which prevails over more demanding alternatives (see our discussion further below).

4.5 Spillover Strength and Valence

In psychological research, valence and intensity have been consistently confirmed as the two central elements of affect (Cacioppo et al., 2000; Fiske & Taylor, 2008). *Valence* refers to the quality of an initial affective response to a stimulus as positive or negative, good or bad. In contrast, *intensity* indicates the strength of an affective response and ranges from activated to deactivated, and from energized to enervated arousals (Russell, 2003).

Given the association between a TGS and a member organization we expect affective valence, i.e. the experience of either positive or negative affect, to determine spillover valence. That is, in cases of positive affect (e.g., delight, gratitude, admiration, pride), we suppose a positive legitimacy spillover that increases the legitimacy of the TGS. On the other hand, in cases of negative affect (e.g., anger, despair, outrage, guilt) we expect a negative legitimacy spillover that diminishes the legitimacy of the TGS. For instance, the experience of moral outrage in reaction to a human rights scandal in which a TGS member is involved offers a highly accessible stimulus and a potential heuristic attribute that can substitute the undetermined target attribute of legitimacy. The case of the UN Global Compact and PetroChina illustrates this point. Launched in 2000 by the then General Secretary Kofi Annan, the Global Compact comprises national governments, international organizations, NGOs, and private business firms and advances the alignment of business operations and strategies with general principles in the areas of human rights, labor standards, the environment, and anti-corruption (Rasche, 2009). Its current (as of July 2012) base of 6,979 signatory companies

makes it globally the largest TGS. Given its significance, we will primarily draw on the case of the Global Compact to illustrate our arguments on legitimacy in transnational governance.

In 2008, over 80 civil society organizations blamed the Chinese oil company and Global Compact member PetroChina for the "systematic or egregious abuse" of the Global Compact's principles (Investors Against Genocide, 2009). PetroChina had strong financial ties with the Sudanese government; nevertheless, according to the complaints, it failed to use them to promote measures that would end the violation of human rights in Darfur. Civil society groups argued that the Global Compact's unwillingness to confront PetroChina over this failure weakened the integrity and credibility of the Global Compact itself (Global Compact Critics, 2009; Investors Against Genocide, 2009). In the eyes of its critics, PetroChina disregarded the Global Compact's principles, in particular the second principle: "Businesses make sure that they are not complicit in human rights abuses" (UN Global Compact, 2011a). The negative perception of that scheme member's stance, aggravated by mass-mediated scandalization, not only damaged its own international reputation but also discredited the UN Global Compact itself as a result of a negative legitimacy spillover (Global Compact Critics, 2009).

As the concept of intensity, introduced above, indicates, affective responses vary; some are more subtle, others stronger. We posit that the degree of affective intensity accounts for different degrees of spillover strength. For instance, in their analysis of individual-level attributions of corporate misconduct, Lange and Washburn (2012) compare the extent of public outrage at the 2010 Deepwater Horizon accident in the Gulf of Mexico with the public reaction to environmental damage caused by various Shell oil spills in the Niger Delta. They suggest that the dramatic explosion that killed several BP oil rig workers was geographically proximate and psychologically less distant to Northern American beholders than Shell's involvement in the massive but gradual environmental destruction in a remote African country. We presume that affective responses to and ensuing negative spillovers onto associated TGSs must have been stronger in the BP case than in the Shell case. Indeed, in the aftermath of the Deepwater Horizon accident the UN Global Compact had to respond to public criticism that BP, a member of the Global Compact, had not been adequately vetted. From the point of view of civil society critics the Global Compact's affiliation with the controversial company called into question the purpose of the Global Compact per se (Global Compact Critics, 2010). To our knowledge, the less immediate and psychologically more

distant oil operations of Global Compact member Shell in Nigeria have not produced a legitimacy spillover of similar magnitude to that which followed the BP incident.

This rationale also applies to the impact of positive affect. To take a real-life example: the UN Global Compact member Daimler reports that it contributes to the fight against HIV/AIDS by offering staff a comprehensive prevention and workplace program in South Africa, and by providing medical support to any of their staff's family members that have been affected by the virus (Daimler, 2010). According to the company, its engagement helps reduce health risks, promotes sustainable development in the region, and slows down the global expansion of a potentially deadly disease. Other things being equal (e.g., the frequency of promotional press releases), we expect that the positive approval and ensuing legitimacy spillover onto the UN Global Compact that this apparent best-practice example generates will be stronger than the spillover generated by a corporate engagement involving significantly lower investments in financial and human resources. From the above discussion and examples we can derive the following proposition:

> *Proposition 2: The greater the affective response (positive or negative) to a constitutive scheme member, the greater the legitimacy spillover (positive or negative) onto the overarching TGS.*

4.6 The Positive-Negative Asymmetry

In the previous section we considered the symmetric effects of positive and negative affect on attribute substitution. In that setting we concluded that stimuli of objectively equal strength are perceived to be of subjectively equal strength in terms of affective response in intuiters. However, spillover research suggests that the impact of negativity is subjectively stronger than that of positivity (Barnett & Hoffman, 2008; Kostova & Zaheer, 1999; Zavyalova, Pfarrer, Reger, & Shapiro, 2012). For instance, in the context of intra-industry reputation spillovers, Zavyalova & colleagues (2012) argue that the greater cognitive salience of negative events accounts for the greater attention they receive in categorization processes (Mishina, Block, & Mannor, 2011; Pfarrer, Pollock, & Rindova, 2010). In this section we examine and compare the roles of negativity and positivity in the process through which legitimacy judgments are formed and elaborate on whether, and if so, to what extent, objectively equal positive and negative stimuli evoke subjectively unequal affective responses.

The concept of affect-based attribute substitution—enhanced by insights from evolutionary psychology research on emotions (Keltner, Haidt, & Shiota, 2006)—is essential for understanding the antecedents of both a "negativity bias" in affective responses to strong stimuli, and of a "positivity offset" in affective responses to weak stimuli (Cacioppo & Gardner, 1999; Ito & Cacioppo, 2005; Peeters & Czapinski, 1990). With regard to the *negativity bias*, it is well established that negative events and information have a stronger impact on mental operations, compared to positive stimuli of equal intensity (Ito & Cacioppo, 2000; Peeters & Czapinski, 1990). In their reviews of the relevant literature, Baumeister, Bratslavsky, Finkenauer, and Vohs (2001), as well as Rozin and Royzman (2001), conclude that "bad is stronger than good" (Baumeister et al., 2001: 323) and argue that the negativity bias reflects a basic and pervasive fact of human nature. Correspondingly, various spillover studies find that negative stimuli originating in severe violations of societal expectations by a single organization have a powerful effect on "innocent" yet related organizations within the same field or industry (Barnett & King, 2008; Jonsson et al., 2009; Yu et al., 2008; Zavyalova et al., 2012).

Notwithstanding the prevalence of negativity, various psychologists (Cacioppo & Gardner, 1999; Ito & Cacioppo, 2005; Peeters & Czapinski, 1990) have noted that at *low levels* of arousal individuals typically pay more attention to positive stimuli than to negative stimuli of equal strength. This propensity manifests itself, for instance, in the optimistic bias that leads individuals to factor out weakly negative information and to believe they can achieve desirable outcomes (Armor & Taylor, 2002; Fiske & Taylor, 2008). Whereas negativity encourages individuals to avoid potentially life-threatening situations and thus enhances the chances of survival, positivity motivates people to engage with their surroundings, thus fostering learning and creativity and forming the basis of growth and well-being in the long run (Cacioppo & Gardner, 1999; Peeters & Czapinski, 1990). This so-called *positivity offset* has not been adequately covered in previous psychological research due to a "misguided assumption" that "environmental opportunities are less important than threats in determining fitness" (Keltner et al., 2006: 119). Although a few spillover studies have described the beneficial effects of associations based on legitimacy (Kostova, Roth & Dacin, 2008; Kostova & Zaheer, 1999), in particular when legitimacy originates in established industries and populations (Kuilman & Li, 2009; Sanders & Tuschke, 2007; Zimmerman & Zeitz, 2002), there is little research on the potentially stronger impact of positivity than that of negativity. Nevertheless, both biases, towards negativity and positivity, may help elucidate the

asymmetry in the potency of spillover effects, and more generally contribute to our understanding of the heuristic processes that lead to the perception of legitimacy or illegitimacy.

Following the evidence delineated above, we expect the impact of negativity to be greater for *higher* degrees of arousal and to produce comparatively stronger negative legitimacy spillovers. Conversely, we suppose the positivity offset to dominate attribute substitution for *lower* degrees of arousal, producing comparatively stronger positive legitimacy spillovers onto TGSs. In other words, we posit that the strength of stimuli *moderates* the relative impact of positive affect vs. negative affect in intuitive judgment formation.

> *Proposition 3a: Compared to strong positive stimuli of objectively equal strength, strong negative stimuli produce a more powerful subjective affective response to a constituent scheme member and thus a greater legitimacy spillover onto an associated TGS.*

> *Proposition 3b: Compared to weak positive stimuli of objectively equal strength, weak negative stimuli produce a less powerful subjective affective response to a constituent scheme member and thus a smaller legitimacy spillover onto an associated TGS.*

In empirical explorations, comparing two contexts with relation to the same entity or framing a logically equivalent transaction as either a gain or a loss (Peeters & Czapinski, 1990; Rozin & Royzman, 2001) approximates the condition of "objective equality" in the strength of stimuli, with which subjective affective responses need to be contrasted. In the context of the UN Global Compact and its members, for instance, we expect the negativity bias to prevail in comparisons of strong stimuli. These may involve affective responses to issues related to human life and death, such as a scheme member's contributory negligence in the killing of 10 people (which would presumably elicit strong negative affect) vs. a scheme member's involvement in rescuing 10 people (which would presumably elicit strong positive affect). We expect that the delegitimizing effect of the former will be stronger than the legitimizing effect of the latter. For instance, we suppose that the condemnation and ensuing negative legitimacy spillover onto the UN Global Compact that resulted from BP's association with the Deepwater Horizon accident, during which several oil rig workers were killed, would have proved more powerful than the positive legitimacy spillover that might have resulted from

public approval, if the lives of these workers had been saved. On the other hand, we expect a bias for positivity when we compare the interpretations of equally weak stimuli, such as Daimler's investment of a specific amount into a workforce health program related to the fight against HIV/AIDS to its (hypothetical) divestment from that program (we assume that in most intuiters such a measure engenders only a weak or diffuse affective response).

4.7 Marginal Effects and Saturation Levels

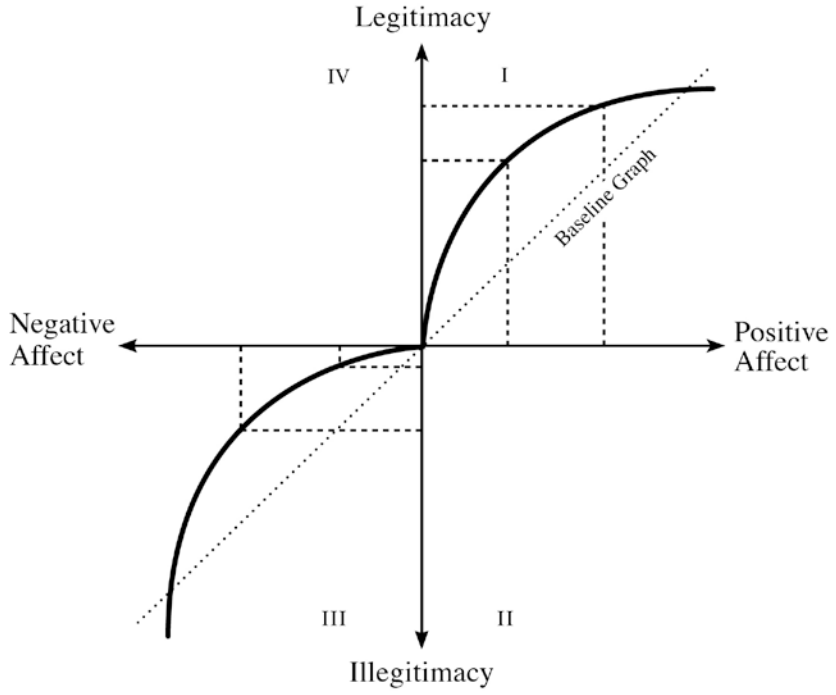
From Propositions 3a and 3b it follows that in the case of positive affect the process of attribute substitution has *diminishing marginal effects* on spillover strength; as a positive affective response towards a TGS member increases, its effect on the legitimacy that is ascribed to the TGS does not increase monotonously but at a diminishing rate. These tendencies are approximated in Figure 6, which should be regarded as a simplified description of a large set of single instances of affect-based attribute substitutions. The figure's horizontal axis depicts the scale of affect whose central point demarcates the areas of negative and positive valence. The farther away points are located on the horizontal axis, the higher the intensity of the affective response. Correspondingly, the vertical axis represents the scale of social approval with regard to a particular TGS. The central point indicates the threshold value of an undetermined legitimacy status where social approval switches from legitimacy to negative legitimacy or illegitimacy; the latter is understood as social disapproval (Elsbach & Sutton, 1992). The farther away points are located on the vertical axis, the stronger the perception of legitimacy or illegitimacy. In view of that, we consider both legitimacy and affect to reflect a bipolar continuum, ranging from strong legitimacy to strong illegitimacy on the one hand, and from highly intense positive affect to highly intense negative affect on the other hand, which is consistent with research on the bipolarity of affect (Russell, 2003; Russell & Carroll, 1999) and on the legitimacy–illegitimacy dyad (Elsbach & Sutton, 1992; Hudson, 2008).

The dashed line in Figure 6 ("baseline graph") illustrates the symmetric and linear mapping of positive/negative affect on the legitimacy/illegitimacy scale; affect-based attribute substitution is characterized by constant gradients. In contrast, in quadrant I of Figure 6 affect-legitimacy substitution is represented by an initially steep but then flattening gradient. In the case of very strong positive stimuli, an increase in the intensity of positive affective response entails a minimal or no increase in TGS legitimacy. Importantly, approximating a zero gradient in quadrant I can be interpreted as the gradual *saturation* of legitimacy,

equivalent to achieving the status of being taken for granted (Suchman, 1995). This notion reflects Pollock and Rindova's argument (2003) that legitimacy ascription eventually reaches a specific threshold where further media information about a business firm increases favorable impressions at a diminishing rate and to an ultimately limited extent.

In the context of transnational governance, Waddock (2008) suspects that most TGSs will never be able to develop a foundation that allows them to persist, with only a couple of schemes having the potential to reach a level of taken-for-grantedness. Among these, we believe, are the Forest Stewardship Council, a governance scheme for the responsible management of timber products, which is "perceived as the strongest of the various certification schemes available" (Schepers, 2010: 279), and the Global Reporting Initiative, which succeeded in institutionalizing the practice of non-financial reporting (Etzion & Ferraro, 2010). Initially, both these TGSs were unfamiliar and their mission not well understood (on the UN Global Compact, see Rasche, 2009). However, the steadily improving track-record in the performance of constituent scheme members and each TGS's association with already legitimate entities have boosted appreciation and public trust and nurtured a positive behavioral disposition towards them in society at large (Casey & Scott, 2011; Etzion & Ferraro, 2010).

Figure 6: Increasing vs. Decreasing Marginal Effects of Affect–Legitimacy Substitution



In the case of negative affect, the impact of attribute substitution increases exponentially with stronger stimuli, as every increase of negative affect towards a scheme member increases the illegitimacy of the overarching TGS to a comparatively greater degree. In such cases, attribute substitution is characterized by *increasing marginal effects* on spillover strength. That is, as a negative affective response towards a TGS member increases, its effect on the illegitimacy that is ascribed to the TGS increases at a growing rate. In the case of very strong negative stimuli, an increase in negative affect entails a substantial increase in illegitimacy. Thus, in quadrant III of Figure 6 we discern an increasingly steeper affect–legitimacy gradient that converges towards infinity, which illustrates that each additional unit of affect has a comparatively greater impact on attribute substitution than preceding units. A gradient approximating infinity indicates the gradual saturation of illegitimacy, i.e. the complete *loss* of legitimacy and the irreversible delegitimation of the organization, as a result of which vitally important resources become inaccessible and the TGS is ultimately led to destruction (Hamilton, 2006).

The complete loss of legitimacy is evidenced, for instance, by the case of the accounting firm Arthur Andersen. A number of severe transgressions committed by one of Arthur Andersen's regional practices caused irreversible damage to the reputation of the global brand and the overall legitimacy of the firm's business (Jensen, 2006). Likewise, although we have yet to witness the large-scale demise of transnational organizations, the integrity and legitimacy of a number of business-dominated TGSs have been damaged by the comparatively less dramatic but still adverse practices of certain of their members, threatening the growth and survival of the overarching scheme. In such cases, several TGSs try to dissociate themselves from tainted scheme members (Yu et al., 2008). For instance, the UN Global Compact's integrity measures include the possibility to "delist" corporate signatories in cases they misuse their association with the Global Compact, fail to comply with the Compact's reporting requirements, and refuse to engage in dialogue on "credible allegations of systematic or egregious abuse of the Global Compact's overall aims and principles" (UN Global Compact, 2011b). Indeed, until June 2012, over 3,600 business firms had been expelled from the Global Compact, in an effort to prevent the damaging effects of a negative spillover. We expect that eventually a few TGSs will emerge as dominant and increasingly taken-for-granted forms of organizing, whereas the majority of TGSs will be perceived as not worth supporting and gradually become defunct (Waddock, 2008).

Proposition 4a: In the case of positive affect, attribute substitution is characterized by decreasing marginal effects on spillover strength until a saturation level of taken-for-grantedness is reached.

Proposition 4b: In the case of negative affect, attribute substitution is characterized by increasing marginal effects on spillover strength until a saturation level of strong illegitimacy is reached.

Note that in our interpretation a TGS becomes taken for granted not through its classification into an already established cognitive category but through the accumulation of single instances of affect-based attribute substitutions. Thus, cognitive legitimacy judgments are not formed on the basis of a "no further questions asked" notion of taken-for-grantedness (Deephouse & Suchman, 2008; Suchman, 1995) but through a series of intuitive judgments based on "some easier questions asked." An important implication is that legitimacy does not derive from a fixed category within which an organization exists, but from the organization's fluid and temporary association with its institutional context. This association legitimizes and stabilizes an emerging category as a whole. We return to this point in the discussion.

4.8 Discussion

We incorporated psychological understandings of human cognition into institutional theory to conceptually explore the heuristic foundation of legitimacy in the context of transnational governance. Our theorizing suggests that intuiters form a judgment about unfamiliar TGSs not by assigning them to a pre-existing category but by drawing on "gut feeling" towards the more tangible and comprehensible members of that TGS. Basing a judgment on an affective reaction demands less effort than weighing multiple, possibly contrasting arguments, especially when categorical structures are lacking or in flux, the required cognitive legitimacy judgment is complex, and the capability or willingness to invest mental resources is limited. In this section we derive the broader implications of our theorizing, and discuss limitations and possibilities for future research.

4.8.1 Rethinking Cognitive Legitimacy

Our arguments on affect-based attribute substitution lend credence to Bitektine's assertion (2011) that under conditions of uncertainty most individuals find it hard to make a judgment about an organization by classifying it into a pre-existing category. As Bitektine (2011: 165)

argues, this may lead individuals to search for available "proxies" that spring to mind. Given that the availability of a stimulus is influenced not only by cognitive recall but also by the accessibility of affect (Slovic et al., 2002), affect and affect-related variables ought to be integrated into analyses of legitimacy and cognitive typification, as our paper indicates. It furthermore suggests that the classification of legitimacy subjects into categories is not based exclusively on similarity and isomorphism with cultural norms and expectations, but also on emotional experience; an assumption that is supported by the "good-is-familiar" phenomenon, i.e. the finding that people tend to attribute familiarity to the source of an unknown stimulus towards which they feel positively disposed (Monin, 2003). This implies that a legitimacy judgment is not based on what individuals already know and think about the respective legitimacy subject, but on how they feel about that subject's associations with other, already legitimate (or illegitimate) subjects. This line of reasoning follows Berger and Luckmann's argument (1967: 131) that socialization "takes place under circumstances that are highly charged emotionally," giving us "good reason to believe that without such emotional attachment […] the learning process would be difficult if not impossible." Fundamentally, the subconscious status of appropriateness and shared understandings of "how things are" and "how things are done" has an inbuilt affective component (Scott, 2008).

An important insight to emerge from our work is that similarity-based theories of categorization may not offer a comprehensive account of cognitive legitimacy, and that it's necessary to assess critically when and to what extent such theories can account usefully for the ascription of legitimacy to organizations (Porac & Thomas, 1990). Our arguments also suggest that in fuzzy or unstable organizational categories cognitive legitimacy may be conferred to individual members through rapidly cued analogies and associations between a member and its respective category. Such associations promote the emergence, legitimation, and ideational stabilization of a nascent transnational category as a whole (Kennedy, Lo & Lounsbury, 2010). It follows that cognitive legitimacy and categorical structures are endogenous to evaluation: to form a legitimacy judgment, intuiters use established categorization schemes, but at the same time create and enact new ones (Durand & Paolella, forthcoming; Negro et al., 2010). In other words, heuristic judgment constructs legitimate categories – a notion that also qualifies the statist assumption of the "categorical imperative," which holds that organizations that cannot be assigned to a pre-established category are either ignored or negatively evaluated (Pontikes, 2012; Zuckerman, 1999). As Zerubavel (1997: 67)

puts it, classification amounts to a "process of actively 'sculpting' islands of meaning rather than simply identifying already existing natural ones."

Because cognitive legitimacy does not necessarily rely on a fixed set of categories but can be nurtured or destroyed "on the spot" through affective associations, institutional theorists need to revisit the conventional notion of cognitive legitimacy as stable and enduring (Scott, 2008; Suchman, 1995), as well as the idea that cognitive legitimacy resembles a dichotomous construct (Deephouse & Suchman, 2008). The propositions presented in this paper are based on a metric view of legitimacy: in line with previous research (Hudson & Okhuysen, 2009; Tost, 2011; Zimmerman & Zeitz, 2002), we argue that legitimacy subjects can be differentiated according to whether they score relatively higher or lower in terms of legitimacy or illegitimacy. The idea that the marginal effects of attribute substitution can be increased or decreased until binary threshold levels are reached (Propositions 4a and 4b) may help reconcile a metric conception of legitimacy with the argument that legitimacy represents a dichotomous construct (Zimmerman & Zeitz, 2002).

Our study also draws attention to an unresolved puzzle, namely the nature of "illegitimacy." In line with Hudson (2008), Hudson and Okhuysen (2009), and Devers, Dewett, Mishina, and Belsito (2009) we posit that illegitimacy is analytically distinct from "lack of legitimacy." Combining the model of affect-based attribute substitution with institutional theory reveals that perceptions of legitimacy may be driven by positive affect, whereas perceptions of illegitimacy do not stem from the mere *absence* of positive affect but from the *presence* of negative affect. Thus, illegitimacy may be better captured by the notion of "negative legitimacy" or "social disapproval" (Elsbach & Sutton, 1992). Considering the ambiguities about the essence of legitimacy and illegitimacy in the existing literature, we urge institutional theorists to specify the cognitive and affective foundation of these two constructs more precisely (Devers et al., 2009).

4.8.2 The Role of Affect in the Cross-level Transfer of Legitimacy

Our study expands previous works on legitimacy spillovers (Desai, 2011; Jonsson et al., 2009) and on the transfer of other types of social approval, such as reputation (Barnett & King, 2008; Zavyalova et al., 2012). Although Kostova and Zaheer (1999) alluded to vertical spillovers between multinational corporations and their subunits, most conceptual and empirical studies have focused on horizontal legitimacy spillovers (Desai, 2011; Jonsson et al., 2009). These works provide evidence that legitimacy spillovers are driven by the "representativeness heuristic," meaning that spillovers are expected to occur when both their

recipient and their originator are subsumed under the same category because of certain resemblances (Porac & Thomas, 1990). In the previous sections we theorized that similarity-based categorization as a microfoundation of spillovers offers a limited explanation for legitimacy transfers in part–whole hierarchies. Clearly, vertical legitimacy spillovers and the legitimacy-enhancing connections that have been identified in dyads consisting of individuals and organizations or organizational groups (e.g. Certo, 2003; Higgins & Gulati, 2003; Zimmerman & Zeitz, 2002), or organizational sub-groups and the overarching organization (Kostova & Zaheer, 1999) can hardly be explained by categorization processes based on similarity, as in these cases the features that the members of those dyads share are too few to define a categorical structure based on resemblances. By drawing on the inclusive model of attribute substitution (Kahneman & Frederick, 2002), we complemented the theories of the representativeness heuristic and class inclusion with the idea that intuiters tend to *substitute* mentally effortful judgments about the legitimacy of a TGS with mentally less difficult affect-based judgments about its members. This tendency determines that an ensuing spillover follows a bottom-up direction, explains a pronounced asymmetry in the strength of negative vs. positive spillover effects (Barnett & Hoffman, 2008; Kostova & Zaheer, 1999; Zavyalova et al., 2012), and reveals that under certain conditions positive affect prevails over negative affect of equal magnitude. Overall, the micro-rationale behind a legitimacy-as-feeling perspective highlights the need to explore further the affective underpinnings of spillover phenomena.

4.8.3 The Emergence of Transnational Governance

Our study adds to the understanding of the novel and increasingly prevalent organizational phenomenon of transnational governance. Notwithstanding the pervasiveness of transnational organizations (Waddock, 2008), past research is largely silent on the boundary conditions underlying their legitimation, i.e. the process through which they are granted legitimacy (Quack, 2010). Crucially, institutional theory lacks a theoretical framework that accounts for "processes that extend beyond the boundaries of organizational or sectoral fields or run through vertically layered institutional orders" (Djelic & Quack, 2008: 301). Our analysis has shown that legitimacy subjects located on different levels of transnational governance systems are interdependent and serve as an important example of vertical legitimacy spillovers. In that context, we substantiated the argument that TGSs need to draw on ideational affinity to other, already legitimated actors and institutions to establish their legitimacy (Djelic & Quack, 2008; Etzion & Ferraro, 2010). Overall, extant institutional core concepts, such as "legitimacy,"

"institutional field," "isomorphism," and "decoupling" have only limited explanatory power when it comes to elucidating the complex context of TGSs (Kostova et al., 2008), and other forms of global organizations whose members are other organizations (Ahrne & Brunsson, 2008). Our micro-rationale of legitimacy ascription aims to complement the too narrow set of theoretical tools available to institutional theory, which do not allow in-depth investigations into the contemporary complexity of global dynamics and phenomena. Because transnational governance, which involves regulating organizations across borders, sectors, and levels of analysis, is a relatively new empirical phenomenon, it is plausible that new concepts may be required in order to fully grasp its scope and character. In our view, the heuristics framework, the notion of the intuiter, and the concept of legitimacy spillovers, which this study expands on, can contribute to the development of such a theoretical apparatus.

4.8.4 Limitations and Future Research

A limitation of our study stems from the fact that the propositions we have developed simplify the underlying mental processes in legitimacy ascription, especially the regulation of intuitive judgment through deliberative (System 2) processes. Besides individual-level factors such as personal disposition, it seems likely that context-specific factors moderate the formation of legitimacy judgments. Discussing the legitimacy subject (Druckman & Nelson, 2003), having sufficient time to analyze it (Svenson & Maule, 1993), ethical considerations (Palazzo & Scherer, 2006), and accountability, understood as the "expectation that one may be called on to justify one's beliefs" (Lerner & Tetlock, 1999: 255), may facilitate a more active and conscious mode of judgment, and the reassessment of the outcome of heuristic reasoning (Tost, 2011). For instance, more systematic reflection may lead intuiters to the conclusion that the illegitimate actions of lower-level constituents necessitate *more*, rather than less, regulation in transnational governance, thus causing a positive, rather than negative, legitimacy spillover on the associated TGS. Likewise, intuiters may actively deliberate the causal strength and clarity of an association between TGSs and their lower-level constituents. That means that equally strong affective responses towards different scheme members may not contribute equally to the legitimation of a TGS, as both affective valence and intensity might be regulated by deliberative System 2 operations. These are no doubt important questions; however, addressing them at length is beyond the scope of this study.

The integration of the concept of heuristics into the institutional theory's literature on legitimacy offers a rich theoretical platform for further conceptual and empirical research. To begin with, future research could explore further the intriguing evidence that vertical

spillovers in transnational governance are not restricted to associations with legitimacy subjects residing at the organizational level but can also extend to the sub-organizational level. It is conceivable, for instance, that legitimacy judgments about a TGS are facilitated by affective reactions towards individuals associated with that TGS. For instance, we expect Kofi Annan's strong endorsement of the UN Global Compact in 1999 (when the Compact was launched) to have produced a positive bottom-up legitimacy spillover onto the young entity, given Annan's popularity as a well-respected and trusted public figure. This notion mirrors Suchman's point that the *personal legitimacy* of organizational leaders affects the legitimacy of associated organizations (Suchman, 1995: 579–582). Future research could examine whether the rationale of affect-based attribute substitution can be considered to apply to other types of vertical legitimacy associations, involving dyads spanning the individual, organizational, and system levels (Deephouse & Suchman, 2008).

While this paper has focused on legitimacy transfers from lower-level to higher-level subjects, we maintain that vertical spillovers do not occur exclusively in a bottom-up direction but may well follow a top-down path. In view of that, it would be worth studying other types of vertical relations in order to establish, for instance, whether the legitimacy of organizational subjects (e.g., private business firms) and sub-organizational subjects (e.g., boards of directors or CEOs) is affected by the overall legitimacy of a TGS and, if so, whether the associated effects and mechanisms are comparable to those in the case of bottom-up relations. We expect that associations involving TGSs, business firms, and the managers of business firms will often "backfire" and the lower-level constituents or their activities will be viewed as illegitimate: firms' motives for joining a TGS are often attributed to an effort to improve their image (Lange & Washburn, 2012; Mishina et al., 2011); for example, some business firms have been criticized for participating in the UN Global Compact in order to take advantage of the United Nations' legitimacy and to "bluewash" questionable business operations (Fall & Zahran, 2010). Furthermore, when a specific TGS becomes strongly associated with another TGS, or is conceptually or semantically related with a higher-level legitimacy subject, lower-level constituents may lose their dominant role in attribute substitution. It is conceivable, for instance, that an affective response towards the UN or a UN decision affects legitimacy judgments about the Global Compact, which it comprises, leading to a "top-down" vertical spillover onto the latter. Likewise, the Compact's legitimacy could be affected horizontally by evaluations of the Global Compact inter-agency team (comprising six UN agencies, such as UNICEF, UNEP, and UNCHR) or by assessments of one of the

UN's central organs, such as the Security Council, all of which may provide highly accessible stimuli for affect-based attribute substitution. Such horizontal and top-down vertical legitimacy relationships are certainly worth exploring in future studies.

Several scholars conjecture the importance of differences among stakeholder groups (Desai, 2011; Hudson & Okhuysen, 2009; Lamin & Zaheer, 2012), as well as among individuals within a specific stakeholder group (Mishina et al., 2011; Tost, 2011; Voronov & Vince, 2012). Future research could investigate membership in various "thought communities" (Zerubavel, 1997) and variance in subjective interpretations by examining the degree of "congruence" between personal attitudes and external stimuli and theorizing its impact on the strength and valence of vertical legitimacy spillovers. Specifically, instead of assuming that the dispositional tendencies of different intuiters are uniform and have no effect on legitimacy judgments, we encourage researchers to distinguish between an "external affect heuristic," when the source of the stimulus lies in an individual's environment and is temporarily available, and an "internal affect heuristic," when the source of the stimulus is relatively stable and informed by the individual's attitudinal disposition towards a legitimacy subject (Kulik, Bainbridge & Cregan, 2008; Pratkanis, 1989). Differentiating analytically between these two kinds of affect heuristics would allow the parsimonious integration of heterogeneity in subjective interpretations into the model of affect-based attribute substitution.

Future analyses of the interpersonal and temporal aggregation of individual-level judgments may shed more light on the formation of legitimacy at the collective level. Studying how the fragmented nature of constituencies and the role of communicative interaction in an inherently heterogeneous socio-political environment influence the legitimation process (Bitektine, 2011; Kostova et al., 2008) could shed light on the *interpersonal* aggregation of judgments. Turning to the issue of the *temporal* aggregation of judgments, Suchman (1995: 574, emphasis added) stresses that legitimacy is "resilient to particular events, yet […] dependent on a *history* of events." Although we touch upon the gradual saturation or elimination of legitimacy (Propositions 4a and 4b), in this paper we examine the effects of spillover primarily as the consequence of single events, rather than of sequences of events. Subsequent research could therefore examine further whether the legitimation of a TGS is enhanced by a continuous succession of unequivocally positive affective responses to associated lower-level legitimacy subjects (organizations and/or individuals). Also, it would be worthwhile to scrutinize whether the consequences of a single negative incident overshadow those of several positive incidents—a scenario that seems

likely, considering the greater impact of negativity in cases of strong affect (Baumeister et al., 2001). A pertinent question that merits further attention, for instance, is under what conditions a single instance of strong negative affect nullifies the validity of a subject that has been gradually established through several experiences of strong positive affect.

Finally, future research could test empirically our deductively derived propositions about the individual-level construal of spillover effects. While we fully appreciate the difficulties that artificial lab settings and sampling bias entail, we believe that problems of weak external validity can be alleviated, at least partly, by more sophisticated experimental designs that embed manipulation into national surveys (Gaines, Kuklinski & Quirk, 2007), as well as quasi-experimental group designs that take into account the legitimating effects of dialogue and communicative engagement (Fishkin & Luskin, 2005). Overall, an experimental research program will help articulate the psychological assumptions underlying research on legitimacy, and will thus promote the development of the legitimacy construct.

4.9 Conclusion

Scholars in the social sciences often mistakenly pit institutional approaches against the individual-level focus of psychological approaches. As a consequence, proponents of the two disciplines tend to sail "past each other in the night" (DiMaggio & Markus, 2010: 351). Shedding light on the intra-individual antecedents of legitimacy in relation to TGSs extends existing theories of how categories based on part–whole associations emerge and how cognitive legitimacy is formed (Bitektine, 2011; Suchman, 1995). Our study thus substantiates the promise of interdisciplinary work and supports the point that insights from the psychology of heuristic judgments can enrich the microfoundation of research on legitimacy (DiMaggio, 1997; DiMaggio & Markus, 2010; Zerubavel, 1997). We encourage institutional analysts to capitalize on the insights that psychology offers in their efforts to develop novel theory and deepen the understanding of the antecedents, consequences, and underlying processes of contemporary organizational phenomena. Without doubt, the aim should not be to reduce explanations to psychological factors but to acknowledge that individuals are situationally cued by their immediate and/or mass-mediated environments. In this sense, social context and human cognition are inherently intertwined. Given that both fields share an interest in subjectivity and ideational processes, the exchange and synthesis of ideas may well prove useful and intellectually rewarding (Okhuysen & Bonardi, 2011).

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